

**ESSAYS ON THE  
ISRAELI ECONOMY**



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# **ESSAYS ON THE ISRAELI ECONOMY**

Edited by  
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## **EDITOR'S NOTE**

The collection of essays appearing in this book, with the exception of one article written by the Editor, were originally presented in a seminar conducted by Dr. Yusuf A. Sayigh, Professor of Economics at the American University of Beirut last year.

As the reader will notice the essays cover a wide range of topics about the features of the Israeli Economy. For the purpose of clarity and systematic presentation, the essays are grouped under four main sections as follows:

### **I. Demographic features of the Economy :**

Three articles appear under this section. The first article, «Population in Israel», by Rasha Faris analyzes the sources and trends of population increase, portrays the educational, occupational and socio-cultural conditions of the Jewish population.

The second article, «Jewish Settlements in Palestine», by Marlene Salameh traces the nature, origin and evolution of communal settlements in Palestine, describes the operation of the Kibbutz and the Moshave with special emphasis on the economic system of the two types of settlements.

The third article entitled «The Arabs in Israel» portrays the economic and educational situation of the Arab minority in Israel. It analyses the discriminatory measures applied to the acquisition of land, the employment restrictions on the mobility of Arab labor and explains the reasons behind the low quality of education in Arab schools.

## **II. National Accounts and Sectors of the Economy.**

The second section combines five articles. The first article, «Israel's National Accounts», by Editor Yusuf Shibl presents Israel's national accounts after introducing a brief theoretical framework about the general concepts used for this purpose and their welfare implications, then gives an account of the main national income indicators.

The second article entitled «Agriculture in Israel», by Mazen Salha, gives a detailed account of the physical characteristics, organization and development, irrigations and water resources and finally output and income in the agricultural sector.

This section includes a third article about «Industry in Israel», written by George Kundakji which covers the following points: industrial branches and their performance, raw materials, employment and the share of industry in national income, investment in industry and finally industrial output and exports.

The foreign sector is of paramount importance to a country like Israel. Two articles cover this important sector. The first article entitled «Foreign Commodity Trade of Israel» written by Saad Salam gives a detailed account about the volume and direction of exports and imports, explains the economic reasons behind the continuous deficit in the balance of trade and finally analyzes the trade policies pursued by the Israeli Government.

A closely related topic is the manner in which the deficit in the balance of trade is financed, and this is the concern of the article written by Ibrahim Habib, «Foreign Aid to Israel». It stresses Israel's need for foreign aid to finance the import surplus and then gives a detailed account on the sources and components of foreign aid.

## **III. Labor Force.**

This section includes one long article entitled «The Hista-drut and the Labor Force in Israel», written by Layla Fanous.

It describes the operations of the Histadrut as a trade Union, then gives an account of the occupational structure, age structure, unemployment pools and wage differential of both the Arab and the Jewish Labor Force in Israel.

#### **IV. Policy and Planning.**

This last section is composed of one article by Sahab Shair entitled «Trends and Principles in Economic Programming and Policy in Israel». This article is concerned with the National Planning and its breakdown among different sectors of the economy as well as with the two main economic policies formulated by the Israeli Government in 1952 and 1962 respectively.

As the reader may notice there are still two topics that are not covered by those essays. The first topic is «Future Trends in the Israeli Economy» which will be forthcoming in a separate study published by the Center within few months and the second topic is the «Background of the Israeli Economy» which constitutes the spring board of the present economy. Since this topic was given full and adequate treatment in a previous study published by the Center it is advisable to refer the reader to this study<sup>(1)</sup>.

**Yusuf Shibl**  
Nov. 1, 1968

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(1) Dr. Y.A. Sayigh, *The Israeli Economy* (Beirut: Palestine Research Center; 1964) pp. 55-91.





## **DEMOGRAPHIC FEATURES**



# POPULATION IN ISRAEL

*By RASHA FARIS*

## I. INTRODUCTION

Israeli population deserves a thorough study, due to the special circumstances surrounding its growth. This population is made up of well defined ethnic groups, and their cultural diversity poses a major social problem. There exist groups ranging from Arabs to native Jews, from Russians to Yemenites, and from Poles to Americans. Israeli society is thus go back and trace the sources of immigrants in Israel.

It is to be kept in mind that what I shall be discussing is mainly the situation of the population as before the June 5th War. All that can be said about the new situation after the War is that about one million Arabs are now living on the newly occupied land, of which 600,000 are on the West Bank of Jordan, 356,000 in the Gaza district, 33,000 in north Sinai, and 6400 in the Golan heights. Before the war, the 1966 estimate of the population of the Gaza strip was 454,000 people; that is, about a 100,000 people left the district after the war. According to the Jordanian census of 1961, the West Bank had 730,000 people. Adding to this about 3% per year of natural growth, the figure in 1967 may have been 760,000 people. That means there have been no less than 160,000 to leave the Western Bank<sup>(1)</sup>.

The most recent census of the population in Israel, that of September 1966, showed that Israel had 2,643,100 people, 2,333,700 of which were Jews, 220,000 Muslims, 59,000 Chris-

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(1) The figures after June 5th have been taken from a Jewish census carried out by the Ministry of Defence.

tians, and 31,000 Druze and other. That is, there were 310,000 or 11% non-Jews, who are mainly Arabs.

The Jewish population in 1948 was 765,000 Jews making up 83% of the population and 150,000 Arabs, or 17% of the population. This means that the Jewish population had trebled since the establishment of the state. The Arab population, on the other hand, has only doubled. It is interesting to note that the non-Jewish population has doubled only due to a high rate of natural growth, while no less than two-thirds of the increase of the Jewish population was due to the influx of immigrants.

In 1966, 40.4% of the Jews in Israel were native born, the rest came from a 100 different countries: 31.3% of population came from Europe, America, and Oceania, 14.8% from Africa and 13.5% from Asia.

The population in Israel is unevenly distributed. Israel is highly urbanized. The urban population adds up to no less than 82% of the whole population. The three big cities, namely Tel Aviv, Haifa and Jerusalem, hold 55% of the population, or 69% of the total city population. The Negev area, comprising 70% of the land, holds 9% of the population. These facts one seen in table I.

Spatial separation is well defined between different religious groups, and more so between Arabs and Jews. 80% of the Arabs live in the north of the country, while 15%, who are mainly Bedouins, live in the South of Bearshabe. A more precise division of the non-Jewish population among districts, is seen in table II.

**Table I***POPULATION BY TYPE OF HABITATION, 1 JAN. 1966*<sup>(2)</sup>

Type of town, Village	Population (in Thousands)	Percentage
<b>Urban</b>		
Towns :		
Veteran Jewish	1,317.7	51
New Jewish	290.9	12
Non-Jewish	71.0	2
Total	1,679.6	65
Urban Areas		
Veteran Jewish	148.2	5
New Jewish	278.6	11
Non-Jewish	20.4	1
Total	447.1	17
Total Urban Pop.	2,126.7	82
<b>Rural</b>		
Cooperative Villages (Moshavim)		
Veteran Jewish	28.2	1
New Jewish	96.5	4
Total	124.7	5
Collective villages (Kibbutzim)		
Veteran Jewish	60.8	2
New Jewish	19.9	1
Total	80.8	3
Other villages		
Veteran Jewish	28.1	1
New Jewish	22.0	1
Non-Jewish	170.0	7
Total	220.1	9
Bedouin Tribes	31.5	1
Institutions, estates, farms, etc..		
Veteran Jewish	3.7	—
New Jewish	6.7	—
Non-Jewish	.004	—
Total	10.4	—
Living outside villages	4.0	—
Total rural Pop.	471.7	18
Total Population	2,598.4	100

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(2) Source Ministry of Foreign Affairs, *Facts about Israel*, 1967 p. 48.

**Table II***NON-JEWISH POPULATION BY DISTRICTS ON JANUARY, 1966<sup>(3)</sup>*

Northern	Thousands	Percentage
Northern Districts	172.3	57.6
Haifa District	59.1	19.7
Central District	33.0	11.0
Tel Aviv District	7.2	2.4
Jerusalem District	4.7	1.6
Southern District	23.0	7.7
Total	299.3	100.0

The uneven distribution of the population may be studied from the point of view of average density per square kilometer. This is what the next table shows:

**Table III***AVERAGE DENSITY OF POPULATION / sq. Km. 1966<sup>(4)</sup>*

Northern District	122.6
Haifa District	501.6
Central District	380.9
Tel Aviv District	4675.7
Jerusalem District	397.2
Southern District	19.4
Whole Country	128.3

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(3) From «Facts about Israel, 1967» p. 49.

(4) *Ibid.*

The most densely populated district is that of Tel Aviv, followed by Haifa and then Jerusalem. The South is very sparsely populated, due to the desert nature of the land.

## **II. The Jewish Population Sources and Figures**

There has been a Jewish community in Palestine continuously since the Middle Ages. In 1800, the Palestine population was estimated at about 300,000 people, of whom 5000 were Jewish, the rest Muslims and Christians. The Jewish population grew to 11,800 people in 1845, and to 24,000 in 1882. From the year 1882 on, immigrants started coming into the country. The first immigrants came from Russia, and they were known as the Bilo group. Those who followed them constitute what is called the first Aliyah, or the first wave of immigrants. They amounted to something between 20,000 and 30,000 people. By the close of the 19th century, the interest of world Jewry in the creation of a Jewish national center, if not a State, in Palestine, had become intense, specially after the founding of the World Zionist Organization in 1897. From then on, the Jewish immigration took new and larger dimensions. The years 1904-1914, witnessed the Second Aliyah. The immigrants of this wave were mostly from Russia, most of them with socialistic ideas and aspirations. They had chosen to leave Russia due to the failure of the socialist revolution in 1905. The immigrants amounted from 35,000 to 40,000 Jews. This wave, due to the ideology it brought with it, was to later become the backbone in the political, social, ideological and economic structure of Israel. Between 1919-1923, the Third Aliyah took place, bringing 35,000 Russian Jews, after the Bolshevik revolution. The Fourth Aliyah, from 1924-1931, brought 92,000 Polish Jews, due to both an economic depression, and anti-semitic feeling in Poland. In this same Aliyah, there were also 2000 American Jews, and 9200 Middle Eastern Jews, from Iraq, Yemen, Turkey, Persia and Aden. This raised the percentage of non-Western Jews from 5% to 12%. In the same period, 23,000 Jews left Palestine, due to an economic depression, bringing the population to 175,000 Jews.

Between 1932 and 1938, following the rise of Nazi power, an economic depression in the West, and also pressure in the Middle East on Jews, due to economic hardships, 217,000 immigrants moved into Palestine. They came from Europe, Russia and the Middle East. In this same period, Germans Austrians and American Jews increased tremendously. They were mostly businessmen and men of the liberal professions. Thus, commercial establishments, and enterprises were formed. During this same people 19,000 emigrated, and the net population was 413,000 Jews in 1938.

Arabs were beginning to get agitated due to this mass infiltration of Jews, and so, they revolted in the mid thirties. The British government had to issue the white paper in 1939, limiting the number of Jewish immigrants allowed into Palestine to 15,000 per year, for the next 5 years. This policy was continued throughout World War II. During war, only 92,000 people entered among whom 29,000 entered illegally. The Jewish population at the end of the war was 564,000 Jews. Between 1946 and 1948, 60,000 Poles and Germans, known as the Displaced people, moved into Palestine.

So, to sum, up, between 1919-1948, 487,000 immigrants entered Palestine, among whom 87% were Europeans, 10% Asians and 3% from America, Africa and Oceania. Also 60,000 emigrated from Palestine. The 1948 census of November, showed that there were 716,678 Jews in Palestine, 65% of whom were born abroad.

Table IV sums up the population change, from 1919 to 1948, due to both natural rate of increase and to immigration.

The years after W.W. II were years of terror and fighting among Arabs, Britishers and Jews. This tense situation went on until the United Nations took its final decision of dividing up Palestine into two portions; one went to the Arabs, the other to the Jews. Hundreds of thousands of Arabs, estimated at 3/4 of a million left the Jewish part of Palestine — especially after acts of terror in such vilages as Deir Yassin, undertaken to scare the Arabs away. The flight of the Arabs was to the advantage of the Jews, who made good use of the empty homes.



Table IV

POPULATION CHANGE, 1919-1948<sup>(5)</sup>

	Pop. at Beginning of period	Absolute Number			Percentage		Total
		Total Increase	Natural Increase	Net Migration	Natural Incr.	Net Mig.	
3rd Aliyah 19-23	56,000	36,000	6,500	29,500	18.1	81.9	100
4th Aliyah 24-31	92,000	83,138	26,013	57,125	31.3	68.7	100
5th Aliyah 32-38	175,138	237,584	42,413	195,175	17.9	82.1	100
W.W.11 1939-45	412,722	151,107	61,667	89,440	40.8	59.2	100
Post W.W.11 46-48	563,829	85,804	30,495	55,309	35.5	64.5	100
Total 1919-1948	56,000	593,633	167,088	426,545	28.2	71.8	100

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(5) Juda, Matras, *Social Change in Israel*. Chicago, Aldine Publishing Co. 1956, p. 27.

Table V

SOURCE OF POPULATION INCREASE, 1948-64<sup>(6)</sup>

<i>Year</i>	<i>Jewish Pop. at begin- ning of period</i>	<i>Natu- ral Increase</i>	<i>Migra- tion Balance</i>	<i>Total Increase</i>	<i>Population at end of Period</i>	<i>Percentage of increase</i>
1948	649.7	4.7	104.4	109.1	758.7	16.8
1949	768.7	20.3	234.9	255.2	1013.9	33.6
1950	1013.9	29.0	160.1	189.1	1203.6	18.7
1951	1203.0	34.5	166.9	201.4	1404.4	16.7
1952	1404.4	35.1	10.7	45.8	1450.2	3.3
1953	1450.2	35.0	-1.6	33.4	1483.6	2.3
1954	1483.6	31.3	11.1	42.4	1526.0	2.9
1955	1526.0	33.3	31.2	64.5	1590.5	4.2
1956	1590.5	33.2	43.8	77.0	1667.5	4.8
1957	1667.5	34.1	61.6	95.2	1762.7	5.7
1958	1762.7	32.9	14.5	47.4	1810.1	2.7
1959	1810.1	34.0	14.7	48.7	1858.8	2.8
1960	1858.8	34.6	17.8	52.4	1911.2	2.8
48-60	649.6	392.4	869.2	1216.6	1911.2	

Total population of Israel, including both *Arabs and Jews*.

1961	2154.5	42.2	37.5	79.7	2234.2	3.7
1962	2234.2	42.7	54.9	97.6	2331.8	4.4
1963	2331.8	45.1	53.2	98.3	2430.1	4.2
1964	2430.1	48.4	47.1	95.5	2525.6	3.9
61-64	2154.5	178.4	192.7	371.1	2525.6	

*Jewish Population, 1961-64.*

1961	1911.2	32.7	37.8	70.5	1981.7	3.7
1962	1981.7	31.2	55.0	87.2	2068.9	4.4
1963	2068.9	33.7	53.0	86.7	2155.6	4.2
1964	2155.6	35.8	47.1	82.9	2239.2	3.8
61-64	1911.2	134.4	192.9	327.3	2239.2	17.1

*Arab Population, 1961-64*

1961	243.3	9.5	-0.3	9.2	252.5	3.8
1962	252.5	10.5	-0.1	10.4	262.9	4.1
1963	262.	11.4	0.2	11.6	274.5	4.4
1964	274.5	12.6	—	12.6	286.4	4.6
61-64	243.3	44.0	-0.2	43.8	286.4	18.0

(6) Statistical Yearbook of Israel, 1965, p. 21.

If we divide the population between Jews and non-Jews, as done in table V for the years 1961-64, an interesting factor could be noted. During this period, the Jewish population has increased by 17.1%. The bulk of this growth is due to 192.9 thousand immigrants. This constitutes an increase of 10.1% of the population at the beginning of 1961. The non-Jewish population, during this same period, has also increased by 18%. Net immigration has been very near to nil. It is thus due to the high rate of natural population growth, that goes up to well over 4% in some years, that the non-Jewish population increased so fast. This constitutes a threat to the Israelis, who have to keep the immigrants number per year considerably substantial, in order to keep the Arabs a minority. In 1948, after the exodus of the Arabs, only 155,000 Arabs remained out of a population of less than a million. At that time, the Arabs were 17% of the total population. During the period of mass Jewish immigration, the proportion of Arabs declined; but since 1952, it has remained constant at 11%. This is of great importance, due to the fact that the net balance of Jewish migration from 1951-1964, was about 560,000 Jews. Arab immigration has been negligible. The Arab population has been growing through a natural increase, at a more or less stable, but high rate. The rate of natural increase of Arabs has risen from 3.6% in 1951 to 4.3% in 1962-1964 while the Jewish rate of natural increase has declined from 2.6%, to .7% per year<sup>(7)</sup>. This means that only Jewish immigration, at an accelerated rate, can preserve the share of Jews in the market.

#### A. Education in Israel

Israel has quite an advanced educational level compared to any other neighbouring Arab country. It even compares well to European countries. There exists nevertheless a divergence among the education of Jews of different origins, and even more so, between the Arab and the Jewish population.

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(7) Yoran Ben Porath; *The Arab Labor Force in Israel*, The Maurice Falk Institute for Economic Research in Israel, Jerusalem. Oct. 1966, p. 5.

This discrepancy, and the level of education can be seen in table VI, showing median years of schooling, literacy, schooling of 11 years and above, and schooling of 13 years and above. By all criteria, it is seen that the best educated are the native born Jews, followed by the Europeans and Americans. The worse off, education wise, are the non-Jews-mainly, the Arabs.

The high percentage of literacy among the Jews is due to two reasons. First, it is due to a strong educational system, with free and compulsory primary education, between the age of 5 and 14. Secondly, due to the special facilities provided by the Government, the local authorities, the Jewish Agency and the Labour Federation, for teaching the adult new-comers Hebrew. Over 90,000 people have studied at the intensive Hebrew courses, known as ulpanim, using rapid, modern methods. There are 52 such ulpanim of various types. Residential ulpanim, some of which accommodate families give five-month courses, mainly for professional men and women. Kibbutz ulpanim are held in collective villages, where for 6 months, students study for 4 hours a day, and work half day in return for tuition, board and lodging. There are also non residential ulpanim that give four-month afternoon courses, for 11 to 16 hours a week.

A glimpse of the State Schools for the year 1965/66 in table VII, shows clearly the discrimination against the education of the Arabs, be they a minority as they are. It is true that in every village there is at least one primary school, adding up to 181 primary schools in 135 villages but the state of those schools is degradatory. This bad condition does not only pertain to bad appearance of building, but also to the condition of the books, to the deficiency of good teachers, and even lack of sufficient number of teachers. While in Jewish primary schools there are 20,598 teachers to look after 395,901 pupils, thus having a teacher for every 19 pupils; for the Arab primary schools there are 1620 teachers for 49,349 pupils, or one teacher for 30 pupils. The Jews have 1253 primary schools, while the Arabs have only 181 schools, a ratio of about 10%. It is true that Arabs are 11% of the Jewish population, but due to the

**Table VI***EDUCATION IN ISRAEL*<sup>(8)</sup>

<i>MEN</i>	<i>Percentage Population aged 14 plus</i>			
	<i>Median Years of schooling</i>	<i>Lite- rate</i>	<i>11 plus yrs of school</i>	<i>13 plus yrs of school</i>
All Jews	8.9	88.0	29.7	11.9
Israel born	10.7	99.0	45.9	14.7
Born in Europe & America	9.5	98.3	35.1	16.1
Born in Asia and Africa	6.9	81.8	14.0	4.5
Immigrants up to 1947	7.2	86.7	16.3	5.4
Immigrants of 1948-1954	6.9	82.3	13.6	4.1
Immigrants of 1955-1961	6.8	77.2	14.1	5.4
Non-Jews	5.2	68.0	6.5	2.0
<i>WOMEN</i>				
All Jews	7.9	83.0	22.6	7.8
Israeli Born	10.4	97.1	42.6	15.9
Born in Europe & America	8.8	96.2	27.0	9.4
Born in Asia and Africa	3.7	56.6	6.2	1.5
Immigrants up to 1947	3.7	59.2	8.9	2.5
Immigrants of 1948-1955	3.3	55.7	5.2	1.1
Immigrants of 1955-1961	5.0	58.0	8.0	2.2
Non-Jews	0.7	28.5	3.5	1.1

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(8) Ibid.; p. 10.

high rate of natural growth, one would expect a higher ratio than 11% of Arab children to Jewish children.

The weakness of Arab primary schools is well marked in those who continue to secondary education. The percentage of the Arabs who pass the graduation metriculation is very low as it is seen in the table below.

<i>Year</i>	<i>Percentage</i>
1957/58	8.6%
1958/59	8.7%
1959/60	9.5%
1960/61	13.1%
1961/62	10.3%

The same problem met in primary schools, is still present in Arab secondary schools. Both the numbers and caliber of teachers are deficient. The deficiency of vocational, agricultural and teachers training school, is also obvious from the table. Jews have 187 vocational classes, while Arabs have 4. Jews have 28 agricultural schools, Arabs have one. Jews have 56 teachers training colleges, Arabs have one.

All this deficiency in schooling has resulted in the slackness and pessimism of the Arab population. It also affected the university education badly. In 1963/64, while there were 14,000 Jewish university students, there were only 171 Arab students, or less than 2% of the Jewish number.

After this survey of education, it is not strange to learn that Arabs are either farmers or more likely unskilled labourers.

## **B. Occupation**

In 1948, when Israel was proclaimed an independent state, there were no more than 650,000 Jews in the country since then, more than a million new immigrants have settled in the

**Table VII***EDUCATION IN STATE SCHOOLS, 1965/66<sup>(9)</sup>*

<i>HEBREW SCHOOLS</i>	<i>Schools</i>	<i>Teaching Posts</i>	<i>Pupils</i>
Kindergartens	2,491	2,825	85,541
Primary Schools	1,253	20,598	395,901
Schools for handicapped children	131	1,207	11,316
Schools for working youth	107	266	4,374
Post primary schools			
Secondary	167	3,987	49,628
Secondary evening	21	314	2,456
Continuation classes	129	1,622	10,951
Vocational	187	3,105	31,239
Agricultural	28	613	6,564
Preparatory classes for teachers	20	433	4,291
Other Post-Primary schools	37	144	1,422
Total Post-Primary schools	89	10,208	106,551
Teachers' training colleges	56	1,255	6,251
Total Hebrew Schools	4,716	46,577	616,485
<i>ARAB SCHOOLS</i>			
Kindergartens	151	238	7,845
Primary schools	181	1,620	49,349
Schools for handicapped children	1	1	7
Schools for working youth	5	23	213
Post-Primary schools			
Secondary	8	83	1,558
Vocational	4	24	217
Agricultural	1	8	93
Other Post-Primary Schools	1	5	33
Teachers' training colleges	1	20	143
Total Arab Schools	353	2,022	59,458
GRAND TOTAL	5,069	48,599	575,943

(9) Facts about Israel 1967, p. 142.

country. The government could not just allow any Jew to settle in Israel with no consideration given at least to the age of the immigrant, if not to such attributes as his education, skill or previous military or occupational experiences. The state had given obvious priority to immigrants within certain age limits, mainly from 15 to 60. The Israeli government had in mind giving priority to men within reasonably age brackets, as to be able to join the labour force, and to be of military use to the new national states.

This fact is easily detected in different tables. Table VIII shows the population of Israel according to age groups, in both 1948 and 1964. In 1948, while the Israeli born had 68.9% of their total less than 14 years of age, the American and European born had only 5.1% of that age group, and the Asia Africans 13.7%. Of the American and Europeans there were 89.4% between the age of 15 and 60, of the Asia Africans, 78.6% of the same of group, while of the Israeli born, there were only 30.3%.

This same observation can be deduced from the 1964 figurers. The only addition to be made is that the figures for the non-Jewish population are present. The children's percentage is noted to be quite high, due to the high rate of natural growth of this group.

The Government was in great need of people, in the early years of the state, to take the place of the Arabs, mainly farmers, who left their lands behind. The Jewish population before the Arab exodus, owned 1.4 million dunums, or 5.7% of the land, the Arabs 2.6 million dunums, or 47.8% of the total, and the rest or 12.1 million dunums, were government owned. After the foundation of the state, the lands of those Arabs who left, or who were so called absentee lords, were immediately transferred to Jewish hands. And so were the lands that were government owned. Thus was the need for so many Jewish farmers. To help this, many Jewish settlement places were constructed. In 1948 these amounted to 259 settlements, in 1966, there were 750 of them. The country was also in need of labourers to carry out the development plans, for which capital was easily provided through foreign aid. Lastly, the govern-



**Table VIII**

*POPULATION OF ISRAEL ACCORDING TO AGE GROUP  
IN PERCENTAGES<sup>(10)</sup>*

<i>Age Group</i>	<i>Born in Israel</i>	<i>Europeans &amp; Americans</i>	<i>Asians &amp; Africans</i>	<i>Total Jews</i>	<i>Others</i>	<i>Total</i>
<b>8/11/1948</b>						
0-4	68.9	5.1	13.7	28.5		
15-64	30.3	89.1	78.6	67.0		
65 & over	.8	5.5	7.7	4.0		
Total	100.0	100.0	100.0	100		
<b>31/12/64</b>						
0-14	71.3	5.4	16.6	33.9	47.8	35.5
15-64	28.1	83.7	77.7	60.6	48.4	59.2
65 & over	.6	10.9	5.7	5.5	3.8	5.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

**Table IX**

*HISTADRUT STRUCTURE*

<i>Year</i>	<i>Histadrut Members</i>	<i>Members &amp; wives</i>	<i>Total pop.</i>	<i>Perce- tage</i>
1947	128,000	175,654	630,000	28%
50	230,000	342,791	1,203,000	29%
55	350,000	552,145	1,590,000	35%
60	452,000	703,474	1,911,000	37%
64	525,000	780,000	2,150,000	37%
64	600,000	900,000	2,250,000	40%

ment needed able men to join the army, whenever circumstances dictated. Those reasons explain why the Government gives priority to able men contrary to what is expected of it. Israel was supposedly created to give shelter to all Jews all over the world, and to provide a homeland for them. One cannot say that no old and handicapped people, or no children, have been allowed in, but definitely there has been a priority for skilled labor.

Many of the immigrants had been unskilled labourers, small merchants or just clerks. The country, needed to have those immigrants trained thus many of them were taken by the Histadrut, or the General Federation of Jewish Labour, to be trained. The Histadrut was founded in 1920 and at that point it had less than 5000 members and in 1948, it had already 190,000 adult members, and in 1966 over a million, including 280,000 wives, and 40,000 Arab members. Some figures of the Histadrut membership is shown in the following table<sup>(10)</sup>.

It is noticed that the total population increased in this period 1948-64, by 257%, while membership of the Histadrut by 410%, including wives, or 370% not including wives. The Histadrut members, as a percentage of the population, increased from 28% to 40%.

The overwhelming majority of the Histadrut members are immigrants, and not native born. If one divides immigrants into those who came before 1947, and those who came after, the highest percentage of the Histadrut members are those who immigrated after 1947.

**Table X**

*HISTADRUT MEMBERS 1961*<sup>(11)</sup>

Native born	92,668	13.2%
Immigrated before 47	215,536	30.4%
Immigrated after 47	403,687	56.4%
	<u>711,891</u>	<u>100.0%</u>

It is an interesting phenomenon of the Jewish labour force, and an unusual phenomenon for other countries, that over 50% of the wage earners are employed in the public sector, including government, Histadrut and other institutions. The public sector is especially dominant in the service branch and of course, in public work. The division of wage earners among sectors of the economy is given in Table XI.

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(10) Walter Preuss, *The Labour Movement in Israel Past and Presents*; (Jerusalem; Rubin Mass; 1965-) p. 151.

(11) *Ibid.*, p. 152.

**TABLE XI**  
**WAGE EARNERS DIVIDED AMONG SECTORS OF**  
**ECONOMY<sup>(12)</sup>**

Occupational Distribution.	<i>Gover.</i>	<i>Public Sector Histadrut</i>	<i>Priv.</i>	%	<i>Total</i>
1. Agriculture and fishing	6,000	16,000	23,000	48	45,000
2. Industry and handicraft	23,000	19,000	89,000	51	131,000
3. Building and public works	8,000	19,000	29,000	68	58,000
4. Transportation	12,000	8,000	10,000	53	30,000
5. Trade, Banking and insurance	3,000	9,000	25,000	33	37,000
6. Services	78,000	15,000	48,000	67	160,000
Total	130,000	80,000	224,000	30	460,000

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(12) Ibid., p. 154.

The distribution of employed persons among economic branches is shown in table XII.

**TABLE XII**  
*EMPLOYED PERSONS BY ECONOMIC BRANCH*<sup>(13)</sup>  
*ABSOLUTE NUMBERS*

<i>Year</i>	<i>Absolute Numbers Not Known</i>	<i>Personal Serv. &amp; Entertain.</i>	<i>Health Educ. Welfare, Rel. Jud.</i>	<i>Gov't &amp; Pub. Adm.</i>	<i>Total Services</i>
1955	4,300	48,100	123,300	(—) <sup>(14)</sup>	171,400
1960	1,600	52,200	98,600	55,600	206,400
1963	1,900	59,700	115,900	63,200	238,800
1964	1,700	65,200	123,400	64,300	252,900

<i>Year</i>	<i>Transp., Sotr. &amp; Communica.</i>	<i>Commerce Bank Ins.</i>	<i>Elect Water Sanitary</i>	<i>Constr. &amp; Pub. Works Ser.</i>	<i>Mnuf'g</i>	<i>Total</i>
1955	36,000	78,600	11,900	54,300	127,000	102,000
1960	43,500	86,300	15,700	65,000	162,200	121,100
1963	56,500	103,100	13,000	82,300	200,600	116,100
1964	61,300	107,600	16,000	87,000	215,400	109,300

**TABLE XIII**  
*UNEMPLOYMENT 1962 — 1965*

	<i>1962</i>	<i>1963</i>	<i>1964</i>	<i>1965</i>
Daily Average as % of Employed	4,602	4,032	3,399	3,200
	0.8	0.5	0.4	0.4

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(13) From *Facts about Israel* Statistical.

(14) Not Available.

For the last 10 years or so, the percentage distribution has been relatively constant. Services account for 30% of the employed. The only branch that has higher percentage of the labour force is the manufacturing or industry, mining and crafts branch. In 1955 it employed 21.7% of the working people, and in 1965, 25.3%. This is due to the plans and projects of the Israeli Government to develop the country industrially.

The labour exchanges are managed by the State Employment Service, which has an advisory council representing both labourers and employers. There are 225 such exchange offices, to which unemployed people report. There hasn't been much of a problem in the field of unemployment, except for 1967. The daily average unemployed registered at the exchange in 1967 were 38,000 people. Unemployment was about 4% of the labour force. The retardation of economic activity in 1967, was, due to the fact that the Government had decided to diminish its reliance on foreign aid, and thus slackness of the economy and unemployment followed. Some of those unemployed, 17,000 out of the 38,000, were later employed in public works, such as afforestation, land amelioration and road building. The Government thus created jobs for those unemployed.

I would like to draw attention to the disparity of conditions of work between those of the Arab and those of the Jewish farmers. The Palestinian Arab has been known to be a farmer for many years. Of the 70% of the Arab population that live in rural districts, 55% own their own land. The condition of those Arab farms is very poor. The Arab farmer still uses old methods of agriculture, with very few agricultural machines — Arabs owned 250 such machines in 1962<sup>(15)</sup>. The Government fails to give either sufficient grants or loans to Arab farmers. The irrigated land constitutes 30% of the Jewish owned land, and only 3% of the Arab owned land<sup>(16)</sup>. Not only is the land condition bad, but also the Israeli Government sets different prices for Arab and Israeli same products. Examples

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(15) صبري جريس « العرب في اسرائيل » منظمة التحرير الفلسطينية — مركز الابحاث

نوفمبر ١٩٦٧ ص ١٣١ .

(16) العرب في اسرائيل ص ١٣٨ - ١٣٩ .

for this phenomenon are numerous<sup>(17)</sup>. The price of one ton of barley in 1961/62 was 215 IL for the Arab, while it was 225 IL for the Arab, while it was 3235 IL for the Jew., a difference of 1258 IL in favor of the Jew. The price of a ton of oil for the Arab was 598.3 IL in 1962/63, while it was 882.3 IL for the Jew, a difference of 284 IL in favour of the Jew, of a price greater by 47.4% for the Jew.

The productivity per dunum of the Jewish land in 1963 was 387% higher than that of the Arab land<sup>(18)</sup>. This difference is the result of two reasons: that Arab land is in mountainous regions, and that Arabs lack the capital to develop their land<sup>(19)</sup>. Given all those conditions mentioned above, it is not strange that the Arab farmers are leaving the rural areas to cities. In 1954, the percentage of the Arabs in farming was 57.9%; in 1956, it dropped to 54.6% and in 1962 to 53.1%. In contrast only 10% of the Jewish population are in rural areas. 50% of those are in the cooperative villages (moshavim), 30% in the kibbutzin and the remaining 20% in other villages.

### III. The Socio-Cultural Conditions of the Jewish population

The social condition of the Jewish population are best understood in relation to the cultural backgrounds of the various Jewish citizens. That is, one has to take into consideration the various origins of the immigrants into Israel, and accounts for the varied culture, ideologies, mentalities and languages. When one is aware of these differences, it is then difficult for one to imagine a cohesive body of people known as the Israelis.

Immigration into Israel started on a nationalistic basis, in the late 19th century, with the birth of modern Zionism. The first of these immigrants were Russian Jews dissatisfied with the Czarist rule which was despotic and antisemitic. This first

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(17) العرب في اسرائيل ص ١٣٤ - ١٣٧ .

(18) Ibid., p. 138.

(19) Ibid., p. 130.

influx had some curcial influence on the society's development, due to the ideals that it had brought into the country. Those ideals were a combination of Zionism standiary for the creation of a Jewish national state and of socialism. These socialist ideals were utopian in nature, comprsing of social justice, cooperation, dignity of the labour force and so on. This socialism has been realized through the establishment of the Histadrut. The Hista-drut had major economic and political powers until the establishment of the state, when some of its responsibilities were handed over to the State.

The period of 1880-1920 witnessed slow but constant flow of immigrants. At this early stage, there were already different elements included in the population, mainly European Jews and the Yemen religious Jews, with very little contact between them. In the 1920s and 1930s immigration increased rapidly as thousands of Poles and later German Jews settled in Israel. The numerical increase, though quite impressive, is of little importance in relation to the new social elements that these numbers represented. These new Poles and Germans had no socialist, ulopion ideals. Rather, they represented a middle class ethic. They were mostly professionals, shop-keepers and merchants. Even in this early veteran society — that is the pre-state — society, there were already different contradictory customs and expectations expressed by the population. There were three cultural modes competing with one another within society<sup>(20)</sup>.

1. The old pioneer heroic ethnic, which found an outlet in the founding of the Histadrut, the kibbutim and the moshavim. These were the utopian socialists.

2. The middle class ethnic and way of living. This refers to the more materialistic, personal outlook. It was introduced by the polish and German Jews.

3. The native born, known as the sabra — ethnic. The sabra are the least characterized — but are known to be hard working and methodical.

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(20) Alex Weigrod; *Group Relations in a New Society*. Fredericle A. Praeger Inc., Pùblishers. U.S.A. pp. 25-26.

The choice of settlement places did not help the mixing of those incoming groups. They each chose a different settlement area. During 1948 and 1949, when the European Jewish camps were closed, most of their inhabitants — no less than 70,000 moved into Israel. From the beginning of 1949 till the end of 1951, 220,000 Poles and Rumanians, 40,000 Yemenites, 120,000 Iraqis and many Libyans, Moroccans and Tunisians settled in Israel. The Middle Eastern immigrants were great in numbers — their percentage to the total Jewish population jumped from 8.8% in 1948 to 27.8% in 1952. Those Middle Easterners were hardly ever exposed to a Western society or civilization. The disparity between them and the European Jews was and still is vast. It is also to be kept in mind that the incomers after 1948 were pushed into Israel, due to bad condition at home. They were not pulled on, by the ideology the country stood for. The disparity among those groups was not based only on a national basis, but also on cultural — ideological bases.

The percentage distribution of the Jewish population among different origins is shown below<sup>(21)</sup>.

<i>Year</i>	<i>Western Jews</i>	<i>Middle Eastern Jews</i>	<i>Native Israelis</i>
1948	54.8	8.8	35.4
1952	45.3	27.8	27.1
1956	37.7	29.4	32.9
1960	35.1	27.8	37.1
1962	33.5	28.0	38.5

It is notice that in recent years, the dividing of the population into different groups shows that each group constitutes about a third of the Jewish population, with the native Jews amounting to 38.5% of the total.

The Jewish population, mainly the immigrants have been faced with great disappointment and disillusionment, centering

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(21) Ibid., Table II, j. 14.



around what they are to find and to achieve in the new state. In Weigrod's Words, «But alas ! the expectations that are built up are bound to become disappointments»<sup>(22)</sup>. There are two main sources of frustration. The first is due to the vast discrepancy between what the immigrants skills had been and what the state expected them to do. During the decade 1950-1960, 37% of the immigrant males were former artisans and industrial workers, 17% were small merchants, 13% had strative and clerical backgrounds; and 18% were Scattered in other occupations. Israel's need was for the modern industrial worker, for the technician and for the farmer. Thus for lack of a better alternative, an immigrant had to choose an occupation not necessarily to his liking.

Another source of frustration is the criterion for ranking ethnic groups. This criterion is predominantly the closeness to the European way of living. The closer the conformity, the higher the status; this means that the Ashkenazims, or the European Jews, rank higher than the Sepharaim, or the Middle Eastern Jews. This discrimination is faced even within each of those groups. The Yemenite has a higher social status than the Moroccan, on the ground that the former is believed to be hard working and easily adaptable to new situations. Moroccans are feared, if not also hated, for the hot tempers they are known to have. The Middle Eastern Jews are convinced that they are discriminated against. This is not for fetched, as the European Jews do use such ferms as the sechorim, meaning black, to denote say, Moroccans. Some Jews, in an attempt to run away from a low status, forge a new ethnic identity<sup>(23)</sup>. A Moroccan may thus identify himself with a French man.

The tension between those ethnic groups has gone as far as actual breaking into riots and violence. A good example are the riots that the North Africans led in 1959, in Haife and Beersheeba. «The street mobs were verbally protesting against police brutality and their own bleak residential conditions. But mainly they were disappointed and frustrated by their low

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(22) Ibid., p. 38.

(23) Ibid., p. 41.

position, and angry and resentful with the society that neither sympathized with not understood them»<sup>(24)</sup>.

The ties among members of one ethnic group are very strong. The immigrants primary bonds are to people like themselves. Some immigrants were questioned about their relationships with their neighboring villagers. Iraqi settlers, for example, said that they rarely saw the Qolish or Hungarians who lived near them, but that they sometimes visited other Iraqi settlers who lived miles away. «They might not necessarily be old friends, but at least, they speak the same language»<sup>(25)</sup>.

A group may go as far as organizing its own national political organization, such as «the Organization of the Hungarian Immigrant», and «the Federation of North African Immigrants», and others. The government officials have tried to diminish this into group ties, by designing communities to include say Poles, Yeminites, North Africans and others. The government expected those groups to mix socielly and adopt new modes of behaviour. Hopes were more often than not, shattered. Members of one group still stuck together, even to the extreene case of some families leaving their new areas, and moving to another village to join their friends.

It seems that the only sense of solidarity the Israelis have among them, is their continuous aggressive attitude towards their neighbors. One would expect more internal riots and demonstrations, expresing more feeling of dissatisfaction and disillusionment with the new State of Israel.

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(24) Ibid., p. 41.

(25) Ibid., p. 33.

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## THE JEWISH SETTLEMENTS IN PALESTINE

BY MARLENE SALAMEH

**I. Introduction :** Nature, origin, and evolution of communal settlements in Palestine.

The communal movement, inherent in the history of Jewish attempt for establishing a homeland in Palestine, did not arise as a result of a preconceived plan, as in the case of other utopias. It never involved a flight from life, or the isolation of a group of people from their community. In fact, it grew out of the actual needs and necessities to overcome certain practical problems resulting from the process of occupying and developing new territories. This movement, in its cooperative as well as its collective forms, was started by people «who saw in cooperative action a means as well as an end. As a means, they saw in cooperation the best way of building up their country and of providing social and economic security for themselves and their children. As an end, they viewed cooperation as the highest form of life and the very essence of the future society»<sup>(1)</sup>. The intention of the original founders was to test certain practical solutions to the problems they encountered in their actual and social life. What they wanted was to discover ways and means by which large scale modern land settlement could be achieved which will form the foundation of their activities and their plan of action. Where privately established settlements have failed, they thought of collective action — in the form of identification with a larger community — as a key to successful colonization.

Immigration to Palestine which started in the eighties of the nineteenth century, was encountered by intensive moral and financial encouragement from the World Zionist Agency

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(1) United Nations. *Community Organization and Development*, p. 1.

and its affiliated agencies. A group of young men and women began undertaking attempts at large scale farming. Though these early ventures were not completely successful, nevertheless, they contributed for modern agriculture in Palestine. Later waves of immigration helped to raise farming to a more modern standard and to set a pattern of cooperation in which work, as well as the fruits of work, were to be equally shared among the members.

Based on a lease-hold system, the settlers never had the right to private property. Land always remained a common property, and those who acquired it had had to serve higher purposes, other than those of personal profits and exploitation of others. On such grounds two types of settlements were founded<sup>(2)</sup> : the national and cooperative settlements. Briefly described, the national settlements were large farms owned by the Jewish Agency, operated by employed paid labour and supervised by managers. The cooperative settlements were large farms owned by workers cooperatives; the workers are paid and have a certain percentage of the annual profits. The national settlements failed because of conflict between the workers and the managers, and soon gave way to the collective settlements.

The first kibbutz, or collective settlement was founded in 1909 as a family collective (kvutzah) in which social relations would be those of a primary group and which would be operated by mutual agreement without referring to formal rules or to written constitutions. It is an example of comprehensive collectivism where the individual identifies himself wholly with his group.

At the same time another form of settlement was emerging, namely the Moshav or cooperative settlement. It is based on a combination of collective elements — principles of equality, collectivism and mutual aid — as well as individualistic elements — principles of individualistic farming and private family life. The discontent aroused by the Kibbutz's practices

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(2) A.W. Kayyali, *Kibbutz, or Collective Farms in Israel*, (Beirut: Palestinian Liberal Organization Research Centre; 1966), p. 23.

and principles was the main reason behind the emergence of the moshav settlements<sup>(3)</sup>; such practices included the interference with (or even absence of) individual freedom and disappearance of family life...

Based on agriculture, these two forms of settlements faced the difficulties of adapting to a new environment with a new set of climatic and geographic conditions. Moreover, agriculture in Palestine at that time was still not developed and could not lend itself easily to modern large-scale farming. Tools and equipment were of a low technological standard, which hampered the establishment of a modern economy based on modern farming. In addition, there were still other forces that hampered the development of agriculture in Palestine, namely, difficult and costly transportation facilities, small markets resulting from a low level of industrial and urban production, an inefficient supply of water and electricity.

Though somewhat differing in their principles, these two forms of settlements, with the same driving force, managed to adjust themselves, in spite of all difficulties, to the conditions of the country, as well as to the changes brought about by three wars, riots, economic crisis, mass immigration, the establishment of the state of Israel, etc. ...However, it should not be concluded that such settlements are equally highly profitable. Statistics prove that the kibbutzim have experienced a declining level of productivity and have been accumulating losses since the year 1954, with the short exception of the interval of 1961-1964<sup>(4)</sup>.

## II. Operation of the Kibbutz and the Moshav economies

### a) Principles:

A discussion of the operation of the kibbutzim and the moshavim presupposes a study of their principles and goals

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(3) H. Darin-Drabkin, *Patterns of Cooperative Agriculture In Israel*, (Tel Aviv: Department for International Cooperation, Ministry of Foreign Affairs; 1962), p. 26.

(4) E. Kanovsky, *The Economy of The Israeli Kibbutz*, (Cambridge: Harvard University Press; 1966). p. 133.

The goals shared by both the kibbutzim and the moshavim are the following:<sup>(5)</sup>

- the colonization of land in order to be able to absorb the greatest number of immigrants.
- expansion of agricultural production, to meet the rising demand due to an increase in population.
- The attainment of a decent standard of living.

To attain these goals, the moshavim and the kibbutzim have the following common principles as prerequisites for effective and successful life:

**1. Social and economic equality:** common to almost all types of settlements is the principle that Zionism does not end with the return of the Jews to Palestine. Zionism is not simply the creation of a Jewish National Home no matter how that home is built. «The communal settler is passionately interested in shaping the National Home in accordance with those principles which will render all people in the society free and assure them a real equality of opportunity and privilege»<sup>(6)</sup>. According to kibbutz settlers this principle implies that all individuals will receive the same clothing allotment, eat the same food and enjoy approximately the same housing conditions regardless of their power and positions.

**2. Abolition of private property:** i.e. «property used and produced by the entire community rightfully belongs to the entire community»<sup>(7)</sup>. The land is not only not owned by those who work on it, but even the settlement itself is not the legal owner of its land. It is rather owned by the Jewish nation and leased for a certain period (49-year renewable lease) from the Keren-Keiyemet — Jewish National Fund — by funds raised through voluntary contributions. It has been maintained that only in the absence of a system of private property, that

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(5) *Ibid.* p. 33.

(6) H. Pearlman, *Collective Adventure*, (London: William Heineman Ltd; 1938), p. 95.

(7) M.E. Spiro, *Kibbutz, Venture in Utopia*, (New York: Schocken Books; 1963), p. 19.



a classless society, in which economic inequalities are wiped out, and a greater brotherhood could be achieved.<sup>(8)</sup>

**3. Self-labour:** to all settlers, labour is no more a habit but a calling which becomes an end in itself, as most people were middle class intellectuals who deliberately chose to be workers and «by so choosing they reversed the traditional prestige hierarchy and the historical aspiration of upward mobility»<sup>(9)</sup>. Not only is the stress on labour, but «self-labour» is of equal importance, in the sense that each communal settlement must be self-sufficient without the recourse to hired labour. The agricultural worker and his family alone are to cultivate their land. In the case of a moshav, where each farmer has his own farm and cultivates it on his own responsibility, the size of the individual plot has to be small enough that he can cultivate it without hiring outside labour, but at the same time, it should be large enough for him to make a living out of it. Physical labour especially agricultural labour is most valued.

**4. Moral value of the group:** this principle emphasizes the fact that the group is not only a means to the happiness of the individual, it means that the interests of the individual must be subordinated to those of his group; that the individual's motivations will be directed always to the promotion of the group's interests and finally that the group living and experiences are valued more highly than the individual's<sup>(10)</sup>. In other words, this system is one of complete identification with the group.

**5. Mutual aid:** these settlements are characterized by a feeling of absence of worries on the part of the individual. Measures are taken to ensure material as well as psychological security. Material security takes the form of providing, work for the unemployed, income for the old and physically disabled members, and replacements of the sick by healthy individuals to take over their work. In the kibbutzim, the mutual aid

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(8) *Ibid.* p. 20.

(9) I. Al-Abed, *The Moshav, The Cooperative Villages in Israel*, (Beirut: Research Center; 1968), p. 45.

(10) M.E. Spiro, *op. cit.*, pp. 29-30.

system is more comprehensive than that of the moshavim, in the sense that all expenses will be borne by the community, and the individual does not have to worry about his work, or the future of his children, as everything will be provided for him and his family after his death, by the kibbutz.

b) Administration:

1. Kibbutz administration:

Based upon a system of self-government<sup>(11)</sup>, the highest authority in the kibbutz lies with the General Assembly in which both men and women have the voting right. It is an example of delegated authority to the following specialized committees:<sup>(12)</sup>

1. Committee on Economic Policy: this committee, consisting of 15 members, initiates policy on all economic matters affecting the kibbutz, and makes most of the important long-run economic decisions.

2. Executive Committee: It makes the day-to-day decisions on economic matters on the basis of the broad policies laid down by the committee on Economic Policy.

3. Planning Committee: this committee has a short life, serving only at the beginning of the year. It projects an over-all annual plan for the kibbutz but has little power.

4. Work assignment committee: this committee meets every month or two to draw up a general plan for the most efficient and profitable allocation of manpower for the succeeding period.

5. Constructions committee; including the construction of new living houses dormitories, school buildings, etc....

To assure the democratic character of the community, the founding members thought of rotating all offices in the settlement every six months. However, due to the limited supply of administrative talent and skill, this approach was abandoned, and efficient administrative members may stay

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(11) Anglo-Jewish Association. *A New Way of Life*, pp. 46-52.

(12) M.E. Spiro, *op. cit.*, pp. 79-80.

for two or three years in their positions, with the understanding that no gain, material or otherwise, is gained by occupying such a position .

## 2. Moshav administration.

Similar to the kibbutz, the highest authority in the moshav resides in its General Assembly. In its annual meeting, the General Assembly adopts a budget, levies taxes, elects executive bodies and defines major policies for the conduct of the cooperative institutions, educational affairs and mutual aid funds.

The General Assembly elects a village council which delegates its administrative powers to small executive committees for the transaction of current business. Different committees of the village council administer the schools, promote adult education, supervise the mutual aid measures and deal with public security. These committees are the following:

1. Economic activities committee: which deals with collective problems of production and consumption.
2. Agricultural committee.
3. Mutual aid committee.
4. Cultural activities committee.
5. Public health committee.
6. Judicial committee.
7. Defense committee.
8. Members' liaison committee for the army.

The most important problems and issues of principle are brought before the village assembly, whereas daily problems are handled by the moshav council and the executive committee. A village court is elected also by the General Assembly to deal with disputes among members.

## III. Operation of the kibbutz and moshav economies

- a) Land and agricultural conditions in Palestine before and after 1948.

The Jewish National Fund organized by the World Zionist Organization in the early part of this century, was of paramount importance in the moshavim. Its purpose was basically to purchase land in Palestine and to rent it on the basis of a 49-year renewable leases to thoses undertaking to cultivate the land on their own.

After the Mandatory period restrictions were removed in 1948. The Jewish National Fund expanded its holdings so that today, it owns most the cultivated area of Israel. Until 1948, the kibbutzim had much less land than they were able to cultivate profitably. In 1948, vast new areas became available, including lands abandoned by the Arabs and State owned alnds taken over by the Israeli Government. The Government then turned then to the kibbutzim and to the moshavim to cultivate these lands, since they had the equipment and the know-how. The communal settlements increased their land holdings both those allocated to them on a permanent basis and those leased to them on a short-term basis<sup>(13)</sup>.

Besides the problem of land which has been solved by 1948, the climatic and geographic conditions in Palestine make the problem of irrigation one of major importance. In addition to the very heavy capital investment in land in the form of farm building, fences, drainage, roads and fertilization, there has been huge investment for irrigation facilities. With irrigation, many new crops which would otherwise be impractical have been introduced; land is more fully exploited during the dry summer months and yields have often increased as much as five-fold sometimes<sup>(14)</sup>. These accomplishments have been facilitated by the establishment of public water projects, such as the Mekorot water company — owned by the government, the Jewish National Fund and the Histadrut — which provided the transfer of water from north and the center of Israel to the south. There is also the large-scale Jordan water scheme, which aims at transferring the waters of the river Jordan from the extreme north to the south.

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(13) E. Kanovsky, *op. cit.*, (The Economy of the Israeli Kibbutz. Cambridge: Harvard University Press, 1966, p. 34.

(14) *Ibid.*, pp. 34-35.

Of major importance is the location of the settlement and the problem of allocation of land and water resources. Government encouragement or discouragement in the forms of subsidies, credits and other forms of aid designed to stimulate production, have certainly affected the allocation of resources. Among the policies followed is that of diversification of agriculture to enable the settlements to become self-sufficient as much as possible.

b) Collectivism in the kibbutzim.

The kibbutz is the product of both an idea and a movement<sup>(15)</sup>: that of reclaiming the land of Palestine to the Jewish people and that of returning the people to the land. The kibbutz movement is thus based on agricultural colonization as its basic function, embodying the ideology of World Zionism. A special characteristic of this type of colonization is its complete collectivism. The settlers' attitude is that «from you to the group, the best you have, and from the group to you, the least you can do with»<sup>(16)</sup>. In fact, collectivism is the dominant feature of both production and consumption.

As has previously been said, work is the governing principle and every adult member is considered a worker and contributes his share of work to the community. The family is no more the unit of work. Each individual is assigned a particular job by the Works Assignment committee. With few exceptions, the branch in which a person is assigned is determined by his desires and skills. In the absence of the profit motive and individual reward and because all normal work enjoys equal prestige, a person's choice is determined primarily by the intrinsic satisfactions he obtains from his job. Very rarely would members be placed outside the sphere of their interest; such cases are:<sup>(17)</sup>

1. The person does not have the required skill or knowledge. If he fits nowhere, he stays a floating manpower, with no

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(15) United Nations. *op. cit.*, p. 5.

(16) H.P. Infield, *op. cit.*, p. 66.

(17) M.E. Spiro, *op. cit.*, pp. 75-79.

permanent assignment. However, the kibbutz tries to avoid this type of assignment due to its demoralizing effect on the member in a society where labour is the highest value.

2. The branch is already filled and does not need additional workers. However, should a vacancy arise, that member will be permitted to fill the post.

3. Certain jobs are generally disliked and required special training which most people do not have or from which they would not benefit. In such cases the position is filled either by exerting pressure on some individual to take the job, or by a formal draft voted by the town meeting.

4. Certain jobs are regarded as so distasteful that they are filled by a permanent rotation system in which almost everyone serves his turn.

5. The person is ill and cannot engage in strenuous physical work. Such an individual is assigned to a suitable job not necessarily to his liking.

6. There is finally the problem of the woman who has worked in a permanent job and who has to retire because of pregnancy, childbirth and the period of nursing. If her job has been satisfactorily filled during her absence, she may be unable to return to it until there is another vacancy. In the meantime she must take another job which she may not particularly desire.

Collectivism of work includes women and adult children as well. In the beginning, women used to be assigned to all types of work, drive tractors, guard against marauders and other physically hard jobs. However, the trend now is towards giving women the easier jobs. Nevertheless, no barriers are set against their promotion to important positions in the collective settlement.

Every attention is given to the upbringing of children and their education. No efforts are spared to imprint the ideology of the kibbutz in their nature in order that they may continue with the collective way of life. Children's education starts from the very moment they are brought from the collective hospital

and taken to the infants' house where they will be brought up together according to age groups and irrespective of family relationships. The teaching methods are progressive and experimental where emphasis is put on the child's self-determination and where a system of awards is replaced by group achievement. Emphasis in work education is on discipline, physical endurance, thoroughness and team work. When children reach the age of fourteen, they start working part-time — around four hours per day — and enter the youth community which resembles the children's community but is affiliated with youth movements. Gradually, they start working four, five, and six hours. At seventeen, they become responsible members of the collective, and it will be up to them to stay in their kibbutz or to choose to form another kibbutz with their age group in which they will stay for life.

Other aspects of the collective life in the kibbutzim include settlement meet and have the same type of food. There is also a common dining hall in which all members of the collective the kitchen, where conditions are so bad, that work assignment there is detested by almost everybody. There is as well a common clothes store and a common laundry. On the recreational side, exhibits, contests and festivals are all provided by a standard institution which arranges them during holidays; celebrations, lectures and movie performances are among the notable events in the kibbutz social life.

From what has been described about the kibbutz economy, we can conclude that in the absence of private property, money and the profit motive, in this classless society, members are not compelled to carry their responsibilities. Other conventional motives are at work:<sup>(18)</sup>

1. Motive of personal economic improvement: in this system, though returns do not accrue to an individual directly, but his material improvement and his own standard of living depend on those of the group, and those of his group are ultimately derived from the productivity of its members.

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(18) *Ibid.*, pp. 83-86.

2. Members derive intrinsic satisfactions from their work because they themselves have chosen to live a rural life and to work in an agricultural economy.

3. Competitive pride: members take pride in the success of their branches and become depressed by failures. Though they wish to see the entire kibbutz prosper, they derive greater satisfaction from knowing that their branch contributed its share or more to this prosperity.

4. A final motive for efficient and productive economic behaviour is prestige. Labour is one of the paramount values, if not a sufficient determinant of prestige. In the absence of the profit motive, the respect of one's fellows has been an important motive in this society. Few are willing to risk this respect by refusing to work or by even working inefficiently.

These personal motives, important as they are, are not sufficient to explain the economic behaviour of the kibbutz members; as they may be as great outside the kibbutz as inside it. Therefore economic behaviour in the collective includes satisfactions and motivations that are not found outside<sup>(19)</sup>:

1. The kibbutz offers the average member a sense of security which is difficult if not impossible to obtain outside. The social security system is so comprehensive that the individual has few, if any economic worries. As long as the kibbutz, as a whole, enjoys well-being, his economic welfare is assured.

2. The same absence of worry characterizes the ill and the aged. The kibbutz assumes all expenses for the sickman and his family as well.

3. Equally important is the psychological security found in the kibbutz economic system. What is stressed here is freedom from that psychological insecurity which stems from economic competition. A basic source of anxiety in a capitalist culture-anxiety arising from the prestige function of property and wealth is not found in the kibbutz economy.

4. Although the desire of the average member to work in the kibbutz is explicable in terms of the security this economy

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(19) *Ibid.*, pp. 86-89.



offers him, this ego function is not enough as an explanation of the devotion, zeal and responsibility which he displays in his wrk. The latter can be explained only in terms of «hakkara» or consciousness. It really refers to a conscious awareness of one's moral responsibility to the kibbutz. This means that a member performs all his activities faithfully and perfectly not only because by so doing he is benefiting himself or because the group expects this kind of responsibility from its members, but because of his «hakkara».

It has been concluded that a member of the kibbutz «despite the absence of the profit motive is more responsible in his work than is the worker whose motive is private gain. His job, performed with «hakkara» means more than a job and more than a way of making a living. It becomes a sacred task; a calling in the religious sense of that term, dedicated not to the greater glory of God, but to the welfare of his group»<sup>(20)</sup>.

#### c) Cooperation in the moshavim.

Conditions in the moshav are different, for it is based on an individualistic way of life, with cooperation extending only to the marketing of the produce, purchase of equipment and to a limited degree, production<sup>(21)</sup>. The individualistic way of life is a distinguishing feature of homelife where the household expenses and the upbringing of the children are left to the individual<sup>(22)</sup>. However, before I start discussing the different aspects of cooperation in the moshav, it is better to begin with the reasons that previous kibbutz settlers claim have forced them to leave the latter and to form the moshav settlements:<sup>(23)</sup>

1. One of these reasons was the fact that these people wanted to be free, free to work how and when they pleased, rather than be at the mercy of the Works Assignment committee. Therefore, it has been the principle of interference in indivi-

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(20) *Ibid.* p. 89.

(21) A. Granott, *Agrarian Reform and the Record of Israel*, (London: Eyre and Spottiswoode, Ltd., 1956), p. 136.

(22) Anglo-Jewish Association, *op. cit.*, p. 17.

(23) M. Pearlman, *op. cit.*, pp. 260-270.

dual's freedom that this group of people were discontented with in the life of the kibbutz.

2. Productivity of each farmer will increase if he knows that the land and its yield are his individual property, because there is a much greater incentive to work if the farmer knows that the estate belonged to him and that his family and children would have it after his death.

3. In the kibbutz settlements, it has often happened that the strong made for the weak and lazy, in the sense that some members had to work excessively hard to make up for their fellows poor and inefficient work in a system with no direct supervision;

4. In the small holders' settlements there was room for the pursuit of a greater number and a wider variety of interests, because the small holder is himself personally engaged in almost every phase of agricultural activity.

5. Children in this type of settlement will be better off than in the kibbutz. They will be brought up on their own private estates, with the knowledge that it will pass in turn to them. They will have much a greater sense of responsibility at a much earlier age than the children of the kibbutz. Moreover, they have the benefit of parental guidance and care from the moment they are born to the benefit of parental guidance and care from the moment they are born to the moment when they become off age.

6. Women feel happier in cooperative settlements because they feel it will satisfy what they call their instinct for private family life. They like to have children and husband around; and enjoy the privacy of their private house and their relative independence.

7. On the technical side, these settlers hold that big machinery is the first requisite of success in agriculture, and this type of machinery can give profitable returns on its investment only on large-scale production. The moshaw will have access to this type of machinery, since in the constitution of the settlement there is a provision for cooperative buying and selling as well as for mutual aid. The point they emphasize is

that it is easier and more economical to use such machines on large, concentrated areas belonging to one farmer, than on small scattered plots worked by different ones<sup>(24)</sup>.

Despite these differences, when members of the moshav took the first steps to found their first village, they organized their work along kibbutz lines<sup>(25)</sup>. The draining of swamps, the preparation of soil, the paving of roads and such other preliminary work can only be carried out through the work of the group as a whole; then it will be possible to divide the area into plots, where each settler will assume full responsibility for his house and farm.

Moshav villages are established on lands belonging to the government or to the Jewish National Fund, based on a leasehold system for a period of 49-year renewable leases (just like all kibbutzim). The lands are parceled out equally, both qualitatively and quantitatively to members of the village. The size of the members' plots, varies from one settlement to another depending on the location, the kind of the agricultural activity in which they are engaged and also upon the size of the settlement itself<sup>(26)</sup>. No member has the right to enlarge his plot or to hire and cultivate the land allotted to another member. Furthermore, the individual farm may not be divided between members of a family even after the father's death, in which case the land is inherited by one member chosen by the family, or if the family cannot agree, by the elected institutions of the moshav.

The moshav obliges its members to work and cultivate their own farms themselves and to avoid the employment of hired labour as far as possible. In the early, members may have to find employment outside the estate when is not yet sufficient work within<sup>(27)</sup>. The moshav does not admit also absentee land-owners and agrees to the cultivation of a farm by none, but its

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(24) A. Ben-Shalom, *Deep Furrows*, (New York: Hashomer Hat Zair Organization, 1937), pp. 208-209.

(25) *Ibid.*, pp. 204-205.

(26) M. Pearlman, *op. cit.*, p. 256.

(27) *Ibid.*, pp. 252-253.

actual owner, only in cases where the farmer himself is incapacitated. Even in such a case, the moshav may decide upon the transfer of the farm, on condition that the newly-appointed farmer reaches an agreement with the original owner who no longer qualifies to cultivate the land.

### Cooperative marketing and supply in the moshavim:

The most distinguishing aspect of the moshav economy is its cooperative marketing of supply, where economic collaboration is of the utmost importance. According to moshav statutes, all marketing must be done through cooperative channels and any divergence from this principle is liable to be severely punished. The first stage of the marketing process consists of the collection of the produce, i.e. the transfer of the produce from the individual farm to the collecting station in the moshav. Small quantities are delivered by the farmer himself and large quantities will be taken to the station by a truck belonging to the moshav or to a group of moshavim. It is then examined, weighed and credited to the member.

The next large concern is the sale of the product. This is done through marketing companies, especially «Tnuva» — Histadrut Marketing Company. After selling the products, the company pays the village, which in turn divides the revenue realized among its members according to the quantity and quality of the goods they have supplied. Once the member has delivered his product to the village, he is no longer concerned in the transaction, ownership has been transferred to the village.

This common marketing system has many advantages<sup>(28)</sup>:

1. It releases the individual member from worries, from wasting time on trips to the market and contacts with members and marketing companies.

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(28) H. Darin-Drabkin, *op. cit.*, p. 91. Patterns of Cooperative Agriculture in Israel, Tel Aviv: Department for International Cooperation, Ministry of Foreign Affairs, 1962.

2. It assures reduction of expenses on marketing, packing, etc..

3. The small farmer is able to receive higher prices for his products.

On the other hand, the disadvantages of such a system are:<sup>(29)</sup>

1. The village does not receive the money upon handing in the products, but has to wait until after the sale has been effected.

2. Payment has often been delayed for weeks or months as a result of financial difficulties.

3. Many complaints have been voiced against the high rates of the marketing companies and their commission charges.

#### **Supply of production materials and sources of credit:**

Modern agriculture require a large supply of production materials such as fodder, fertilizers, various kinds of equipment, building materials the provision of which is conducted along communal lines. Supplies are usually concentrated in two institutions:

a) A general sales store «Tzacharia» which sells, apart from food, items and other consumer goods, such productive materials as fertilizers, irrigation equipment, work tools, spare parts, etc...

b) Supply store which contains supplies of grain and mixtures of concentrated animal feed. This store does not, as a rule buy its mixtures ready made from outside, but produces them itself.

Supply is organized as follows: the member arrives at the store and buys the goods he needs. For production goods, he does not have to pay cash but the value of his purchase will be charged to his account. The advantages of such a system are that a general store can buy when the market prices are low, and keep large stocks, while the private individual cannot. By

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(29) *Ibid.* p. 92.

buying wholesale, the moshav can obtain discounts and credits which would not be available to the individual small farmer, and the moshav, in its function as a retailer does not speculate in the goods it sells. Furthermore, the common supply service allows moshav members to save much time, as they need not make frequent trips to the city or other supply centers. The third advantage of this system is that it assures better quality of goods, efficient storage, etc...

As supply and marketing are done on cooperative channels, so is credit. The member of a moshav can obtain credit in two ways:

1. He either receives it directly from the moshav's cooperative authorities,
2. or he may obtain from the Jewish Agency, the government or private banks, through the mediation of village authorities.

The moshav, as a whole, if economically sound, may obtain large sums from banks and, at times, from the government or the Jewish Agency. In this case, the credit extended to moshav members will be increased. However, if debts become dangerously high, the moshav authorities may advise a farmer to cut down on those farm branches which prove unprofitable, and help him to reestablish himself on a more profitable basis. They may also provide him with an additional source of income in the form of work at one of the village cooperative institutions. In this way, a farmer manages to survive while his debt is being reduced.

#### **IV — Conclusion:**

- a) Economic versus non-economic motivations.

From all what has been described about the collective and cooperative ways of life, we may conclude that these two forms of settlements served the essential purposes they have been intended for, namely, the colonization of land and the increase of the agricultural production to meet the demands of an increasing population, primarily due to mass immigration to Palestine. Though uniform in their ends, they seek to achieve their ulti-

mate goals through different means, the reason that accounts for the difference in their productivity, stability and economic viability.

The moshav way of life does not strike an outsider as a peculiar one as does the kibbutz's. The latter depends ultimately on the response of its members to carry on their obligations as faithfully, diligently and perfectly as best as they can, without any direct economic incentive, in the sense we understand of in a capitalist world. Much stress is put on the non-economic motivations, underlying the behaviour of kibbutz members. Zeal, dedication and identification with the larger community may be plausible explanations for the launching of a new movement. Members find satisfaction in the success of their group as a whole, and may even enjoy hard work, believing that it is the only way to achieve the ends they originally sought. On the economic and financial level, they may be satisfied with a mere subsistence standard of living, while mobilizing their entire resources for the attainment of their goals. This may have been quite the actual case in the kibbutz movement. However, the succeeding generations did not prove as zealous as the original founders, especially after 1948, i.e. with the establishment of the Jewish state in Palestine. Non-economic motivations cannot be relied on always, to generate conditions that foster the stability of a movement, such as the kibbutz. It is almost in all cases that the element of time helps in killing the enthusiasm started by any movement.

The collective settlements are by no means closed economies. They are open to the outside world, and members follow up the world events through the usual channels, namely, newspapers, radios, motion pictures, etc... In spite of the process of child-indoctrination there is no assurance that the outside capitalist and profit-seeking spirit may not creep in and find an outlet among kibbutz members, especially the new growing young generation. That is why many kibbutz members have left the collective life and settled in the moshav or in the towns where they can have complete individual freedom, in the full sense of the word. This is reflected in the declining number of kibbutzim established after 1948, and in the percentage of Jewish population living there, as table I shows:

**TABLE I**  
*KIBBUTZ SETTLEMENTS AND POPULATION*

<i>Year</i>	<i>Number of Kibbutzim</i>	<i>Kibbutzim Population</i>	<i>Percentage of Jewish Population</i>
1949	211	63518	6.3
1950	214	66708	5.3
1951	217	68156	4.9
1952	217	69089	4.8
1953	227	73299	4.9
1954	223	76115	5.0
1955	225	77818	4.9
1956	228	79688	4.8
1957	228	79891	4.5
1958	228	78634	4.3
1959	228	77890	4.2
1960	229	77985	4.1
1961	228	76961	4.0
1962	228	79254	3.8
1963	230	79833	3.7
1964	230	80749	3.6

Source: Annual Statistical Abstracts of Israel.

The cooperative way of life, though collective in its marketing and supply of production materials, allows for more individual freedom and for economic incentives. A farmer in the moshav is sure that the fruits of his hardwork are his and will be his sons' after he passes away. So, there is always room for ambitious members to rise and to accumulate material gains, though they may not have larger plots than others. The moshav



settlement can be conceived of as a second phase in the life of an ambitious farmer, who looks for material improvement in the town and is unable to achieve this because of his bad financial condition and because of the higher standard of living in the towns. The moshav provides such a person with the opportunity to work hard and to gather the required capital he needs to establish himself in the town. So, it is expected that the number of moshavim should exceed that of the kibbutzim after 1948, i.e. with the fulfillment of the Jewish aim of finding a homeland. A comparison of the number of kibbutzim and moshavim is explicit in table II:

**TABLE II***THE KIBBUTZIM AND MOSHAVIM IN 1964*

	<i>Moshavim</i>	<i>Kibbutzim.</i>
— Number of settlements	346	230
— Settlements established before 1948	78	135
— Population of these settlements	26872	61528
— Settlements established after 1948	268	95
— Population of these settlements	93051	19411
— Total population	119923	80939
— Percentage of Israel's population	4.7	3.2
— Percentage of Israeli Jewry	5.3	3.6
— Percentage of Israel's rural population	23.6	15.9
— Percentage of Israel's Jewish rural population	40.6	27.4
— Percentage of Israel's agricultural labour force (1963)	34.7	18.7
— Percentage of settlements' labour force engaged in agriculture (1963)	75.6	38.9
— Percentage of settlements' labour force engaged in manufacturing, mining and quarrying (1963)	4.9	20.1

Source: E. Kanovsky, *The Economy of the Israeli Kibbutz*, p. 9.

Table III summarizes the relative movements of the total numbers of members leaving and joining the kibbutzim and moshavim in the years 1963 and 1964.

**TABLE III**  
*POPULATION MOVEMENTS IN EACH OF THE KIBBUTZIM  
AND THE MOSHAVIM*

<i>Year</i>	<i>Type of settlement</i>	<i>Joining</i>	<i>Leaving</i>	<i>Difference</i>
1963	Moshavim	2209	3690	1349
1963	Kibbutzim	4419	7302	2883
1964	Moshavim	3388	5801	2413
1964	Kibbutzim	4817	7204	2287

Source: Al-Abed, I. *The Moshav: Cooperative Villages in Israel*, p. 208.

b) Economic performance and profitability evaluation:

It has been pointed out that the kibbutz economy is superior to the moshav<sup>(30)</sup> because of inherent factors in the structural set up of both economies. Of greatest importance in the kibbutz is the experience and guidance provided by groups of experts in the different branches of agriculture. In the moshav, all this falls on the same individual which makes him unable to become an authority in any one branch. He gets to know a little of everything but not one thing thoroughly. In the kibbutz, there is room for a more reasonable and effective division of labour. Members will be able to become authorities in their fields without distraction or loss of time. Specialization may have an adverse effect on the individual — in the sense that work may become very boring — but in the long run, it brings more profitable results for the collective economy. A similar conclusion has been reached regarding the superior economic stability of the kibbutz<sup>(31)</sup>. Being a larger agricultural undertaking, the kibbutz has far more possibilities of effective plan-

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(30) Ben-Shalom, A. *op. cit.*, pp. 209-210.

(31) Pearlman, H. *op. cit.*, pp. 274-275.

ning, elimination of wastage, economies of scale, adopting the right kind of labour to the right kind of job than can a variety of agricultural units which compose the cooperative small-holdings.

TABLE IV

## ESTIMATE OF KIBBUTZ LOSSES

*(In Millions of Current L.I.)*

	1954	1955	1956	1957
— Gross investment in fixed assets	42.5	51.0	52.5	45.5
— Gross investment in current assets	9.9	8.0	8.0	10.1
— Total (additional) investment	52.5	59.0	60.5	55.6
— Increase in total debt	43.0	54.0	63.0	38.0
— Profit or loss before deduction of depreciation	9.4	5.0	2.5	17.6
— Depreciation allowances (est.)	13.0	15.5	18.1	21.5
Net loss	3.6	10.5	20.6	3.9

Source: Same source, p. 90.

The reason behind the declining level of kibbutz profitability are two-fold: some may be attributed to internal and others to external factors<sup>(32)</sup> Among the important external factors are the following:

— Until the mid 1950's, the kibbutzim generally received less loans and contributions than other sources of settlement from the Jewish National Fund, which have led them to resort to finance their investments through short-term high-interest-rate loans, thus having a cumulative negative effect on their profitability.

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(32) Kanovsky, E. *op. cit.*, pp. 133-138.

**TABLE V**  
**LOSSES PER KIBBUTZ FAMILY UNIT**  
*(In Current Prices)*

	<u>1954</u>	<u>1955</u>	<u>1956</u>
<b>I. Kibbutzim established before 1935:</b>			
a) profits per family unit before deduction of depreciation	680	660	685
b) Depreciation in terms of reproduction value of assets (est.)	<u>800</u>	<u>880</u>	<u>950</u>
c) NET LOSS PER FAMILY UNIT	120	220	265
<b>II. Kibbutzim established 1936-1943:</b>			
a) profits per family unit before deduction of depreciation	540	525	630
b) depreciation in terms of reproduction value of assets (est.)	<u>730</u>	<u>820</u>	<u>900</u>
c) NET LOSS PER FAMILY UNIT	190	295	270
<b>III. Kibbutzim established 1944-1947:</b>			
a) profits per family unit before deduction of depreciation	410	445	580
b) depreciation in terms of reproduction value of assets (est.)	<u>650</u>	<u>740</u>	<u>820</u>
c) NET LOSS PER FAMILY UNIT	210	295	240
<b>IV. Kibbutzim established since 1948:</b>			
a) profits per family unit before deduction of depreciation	440	170	380
b) depreciation in terms of reproduction value of assets (est.)	<u>600</u>	<u>650</u>	<u>780</u>
c) NET LOSS PER FAMILY UNIT	<u>160</u>	<u>480</u>	<u>400</u>

Source: Same source, p. 92.

— Usually the Governmental Development Budget contributed as much as 60% to the collective settlements. However, due to the lack of savings, the remaining 40% was financed through short-term commercial borrowing, subject to high interest rates. Furthermore, repayment of the principal and interest to the Governmental Development Budget began immediately, before the new investment had been transformed into additional cash income.

— A large number of the kibbutzim are in areas with inferior soil, inadequate rainfall and periodic drought. Governmental drought subsidies minimize these losses, but they do not make such kibbutzim viable economies.

— Larger subsidies and other forms of public aid were granted to the dairy, poultry and vegetable branches which are the prime specialties of the moshavim.

— Finally, the educational policy of the kibbutzim adds to the high per capital municipal costs borne by these settlements.

On the other hand, the internal factors that adversely affect the kibbutzim profitability are listed hereunder<sup>(33)</sup>.

— The kibbutzim have stretched the principles of specialization and diversification too far, to the extent that they have become unprofitable. Fewer and larger branches would have meant a smaller per capita income, greater economies of scale, a smaller overhead in the form of administrative personnel and better utilization of the more experienced labour force and management.

— Their very ideology of restricting the number of hired labourers to the minimum possible adversely affected the development of the more profitable branches. This led almost all kibbutzim to become capital intensive, thus aggravating their poor financial condition and increasing their costs.

— Due to their institutional set up and ideology the kibbutzim did not shift their resources to more profitable branches as rapidly as the moshavim.

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(33) *Ibid.*

— Finally, in a private enterprise system, the criterion of profit or loss will sooner or later tend to eliminate the unprofitable units. This raises the average profitability of the remaining units. In the kibbutzim movement, the federation will rarely permit the dissolution of any of their constituent settlements, which resulted not only in the lowering of the average profitability of all the other kibbutzim, but to lower the profitability of the stronger settlements as a result of the considerable aid they furnish their weaker counterparts.

To conclude, one should not take into account the principles underlying the evolution and life of a movement, to be more practical and well-informed, one should look at the economic performance of the units at all to be able to come out with a positive, definite and clear cut assesment of the actual role played by that movement. The non-economic motivations underlying the evolution of the kibbutzim are not enough to justify their economic superiority and profitability over those of the moshavim.

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- ١٥) عبد الوهاب الكيالي . الكيبوتز او المزارع الجماعية في اسرائيل . بيروت : منظمة التحرير الفلسطينية ، مركز الابحاث ، ١٩٦٦ .





## THE ARABS IN ISRAEL

By WILLIAM CURRENT-GARCIA

This paper is a modest attempt to appraise, by the use of material taken from primary and secondary sources, the situation of the Arab minority in Israel. To best fulfill this end, the paper has been subdivided into four subtopics: population, relevant legislation, land policies, and education.

### I. POPULATION

Israeli statistics point out that there were an estimated 160,000 Arabs, including 111,500 Muslims, 34,000 Christians, and 14,500 Druze, who remained in Israel at the end of 1949<sup>(1)</sup>. Included in these figures are about 30,000 refugees who were either expelled or who fled to secure areas within Israeli-occupied territory. This latter category includes inhabitants of the villages of Ma'lul, Andur, and al-Mujaydil and one-half of the citizens of 'Ilut all of whom sought refuge in Nazareth during the fighting<sup>(2)</sup>. Mr. Robin Berckett, the secretary-general of the Mapai party is reported to have said, «Nobody imagined that the Arabs would stay in Israel»<sup>(3)</sup>. Since that time Don Peretz estimates that 10,000 Arabs have been permitted to return including: lawful family breadwinners legally resident in Israel, fiancées, sons up to age 17, students abroad, a «special allowance» of 150 husbands of wives in Israel, mothers of wives

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(1) *Statistical Abstract of Israel* quoted in Nadav Safran, *The United States and Israel*, Harvard University Press, 1963, 293.

(2) Don Peretz, *Israel and the Palestinian Arabs*, Middle East Institute: Washington, D.C., 1958, 1953.

(3) Rachid al-Hussein, «En Israel, les Arabes sont les juifs des juifs», *Jeune Afrique*, n° 270 (February 27, 1966), 31.

in Israel, and only sons living abroad. Additionally some 20,000-30,000 infiltrators have «unofficially» been allowed to remain in Israel<sup>(4)</sup>. On the other hand, countless thousands of requests to return have been rejected. Foreign Minister Moshe Shertok (Sharett) formally offered, undoubtedly due to foreign pressure (on May 29, 1949 American Ambassador James McDonald presented to Ben Gurion a note from President Truman suggesting that Israel should take back 100,000 Arab refugees<sup>(5)</sup>) on behalf of Israel at the Lausanne Conference in 1949 to take back 100,000 Arab refugees, but this proposal was refused in the Knesset by all but two deputies — and they were both Arabs<sup>(6)</sup>. Consequently, Israel later retracted this offer. The Arab countries had rejected it outright, maintaining that any refugee who wished to return should not be denied this right in accordance with United Nations General Assembly Resolution 194 (III/I) § 11 of December 11, 1948. Since then there have been no fundamental changes in either position on this issue.

Statistics indicate that whereas the Arab population increased by 2,300 as a result of a net favorable migration balance between 1950 and 1964, it grew by 120,700 (or approximately 75%) as a result of natural increases within the same time period. The very interesting Table VI shows how this huge increase came about. It shows that the average Arab family in 1963 counted 5.9 persons, up slightly from the 1958 figure, reflecting a dramatic increase in the number of families having at least nine children.

Curiously enough, Jewish demographic figures follow a similar pattern during this period with the important qualification that proportionately more Jewish families in 1963 were limiting their families to not more than two children. On the other hand, proportionately more Jews in 1963 were raising at least seven children. This undoubtedly can be attributed to the spectacular birth rate of Oriental Sephardim Jews. Professor Safran points out that at least 60% of Israeli kindergarden

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(4) *Op. cit.*, *Peretz*, 51-5, 110.

(5) *Ibid.*, 41-2.

(6) *Ibid.*, 45-9.

pupils are children of Oriental parents<sup>(7)</sup>. The total natural increase of Jews between 1948-1946 was 526,800 or more than four times the absolute increase in the Arab population. More significant, however, was the fact that the Jewish population increased by a net amount of 1,062,100 people as a result of immigration from abroad. This meant that the total Jewish population increase between 1948 and 1960 exceeded the Arab increment by almost 1 1/2 million people.

A comparison of where Jews and Arabs live in Israel indicates that the total Jewish urban population was 1,994,498 while only 73,572 «non-Jews» (the customary euphemism applied to Arabs) resided in urban areas of Israel. Furthermore, more than one-third of this latter figure is accounted for by the single city of Nazareth. If one takes the combined urban and rural total, then the Arab population will be found to exceed the Jewish inhabitants only in the Acre subdistrict where Arabs outnumber Jews by 90,920 to 61,258. Although there is no great difference in the number of Jews and Arabs living in a rural environment, rural Arabs were more numerous than rural Jews in only three subdistricts: Acre, Hadera, and just barely in Yizre'el. Conversely, Jews enjoyed a disproportionate demographic advantage in the rural areas of Jerusalem, Zefat, Tel Aviv, Ashqelon, and the Central District as well as in the same corresponding urban areas plus the two Haifa subdistricts, Acre, and the Beersheba urban areas. Finally it is to be noted that Bedouin account for almost the entire Arab population in the Southern District.

## II. RELEVANT LEGISLATION

Theoretically the Arab minority position was to be protected by decrees. Prime Minister Ben Gurion told the Anglo-American Commission of Inquiry that, «We will have to treat our Arab and non-Jewish neighbors... as if they were Jews, but make every effort that they should preserve their Arab characteristics, their language, their Arab culture, their Arab (sic!) religion, their Arab way of life,, while making every effort to... gradually raise the standard of life»<sup>(8)</sup>. The Israeli Declaration

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(7) *Op. cit.*, Safran, 77.

(8) *Op. cit.*, Peretz, 93.

of Independence of May 14, 1948 proclaims that «the State of Israel will be based on principles of liberty, justice, and peace Israel will be based on principles of liberty, justice, and peace as conceived by the prophets of Israel.. (it) will uphold the social and political equality of all its citizens without distinction of religion, race or sex»<sup>(9)</sup>. Furthermore, Israel promised places in the Provisional Government to the Arabs.

Nevertheless, the Tel Aviv Government reactivated legislation originally promulgated on September 27, 1945 by Great Britain to cope with Jewish terrorism in Palestine. Then the Israelis divided the country into three parts, submitting the minority to selected banishment or deportation (clause 112), indefinite detention (clause 111), confiscation of property, dislocation of villages, omnipotent summary and closed military courts (clause 30), placing security zones off-limits to the population on the threat of 500 IL fine or a year's jail sentence or both. Moreover, the police and military could seize and detain any «goods, articles, documents or things» while searching anywhere it pleased (clause 119). It could declare an area to be closed except to bearers of military permits and then turn any such area over to Jewish settlers in flagrant violation of United Nations General Assembly Resolution 181 (II) of November 1947 to the effect that «In all areas of expropriation full compensation as fixed by the Supreme Court shall be paid previous to dispossession». The present Israeli Minister of the Interior, Jacob Shapira, stated at a protest meeting on February 7, 1946 against the regulations which he was later to enforce as Israel's Attorney general:

«Those Regulations have no equal in any civilized country, not even in Nazi Germany. They might exist in an occupied country. The authorities pretend that those Regulations are only imposed against criminals; nevertheless, no authority can allow for itself the promulgation of such inhuman Regulations»<sup>(10)</sup>.

United Nations observer Riley has estimated that 6000-

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(9) Walter Schwarz, *The Arabs in Israel*, Faber & Faber, 1959, 12.

(10) *Al-Ardh United Society in Nazareth*, «Arabs in Israel».

7000 Bedouin belonging to six subtribes of the 'Azasmia tribe were expelled, then ordered to return, but apparently were never permitted to do this<sup>(11)</sup>. The inhabitants of the villages of Juni, Iqrit, Sha'ab al-Birwah, Biram, Umm al-Faraj, Majdal and the village of Rabasia in central Israel were likewise expelled. When the Israeli Supreme Court ordered the return of the rightful owners to Biram and Iqrit, the army promptly dynamited the homes in question and presented their lands to Jews on the grounds that this could be done at «any place conquered by or surrendered to the armed forces or deserted by all or part of its population, and which has been declared by order to be an abandoned area»<sup>(12)</sup>. Even so, such expulsions in Galilee often evoked violent protests from neighboring kibbutzim where Arabs and Jews had befriended one another<sup>(13)</sup>. The case of Biram is given special treatment by Walter Schwarz who explains how its 600 Maronites on the Lebanese border refused to leave, had their homes dynamited in September 1953, and then were replaced by Persian and Moroccan Jews at a new Biram village. Typically, the old inhabitants had been adamant in their refusal to accept neither new quarters nor compensation at the nearby village of Jaish<sup>(14)</sup>.

By May 1951 the Knesset, sensing that Israel's security was no longer in serious danger, voted against the continuation of these Emergency Regulations, but failed to enact alternative legislation so the military administration continued to weigh on the bulk of the Arab population. It is true that in 1951 these restrictions were removed for the 16,000 Arabs who lived with 545,000 Jews in the cities of Jaffa, Acre, Haifa, Ramlé, and Lydda. The two workers parties entered into a coalition with Mapai in 1955, but were unable to do more than to send a commission to enquire into the status of the inhabitants governed by the military administration. This commission conceded that

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(11) *Op. cit.*, Peretz, 96, 119.

(12) *Op. cit.*, Scharz, 63.

(13) Ze'ev Schiff, «Military Administration on Scallies», *New Outlook* II, 9 (June 1959), 17.

(14) *Op. cit.*, Scharz, 92-5.

the Arabs were being treated as less than first class citizens, but recommended that the controls be kept in order to prevent the Arab inhabitants from returning to «squat» on their own land<sup>(15)</sup>. By now it was clear that the term «security» had been stretched to include new domains. Security meant that the inconveniences of military permits would prevent the largely unemployed 25,000 Arabs of Nazareth from posing any serious threat to Jewish workers in Haifa (where Nazarenes had traditionally worked) and that Nazarenes would be effectively cut off from their agricultural hinterland. For the ruling Mapai party, security had additional meaning. By virtue of the dependence of the Arab Local Council on the Military Governor (a Mapai-appointed position), Mapai could virtually elect or dismiss any *mukhtar*. Furthermore, the Military Governor could and did try to influence political meetings. In addition to the extraordinary powers described above, he could oppose the granting of licences for the establishment of enterprises, the construction of buildings, the receipt of government loans, the leasing of land, the allocation of funds for agricultural equipment, the withholding of necessary permits, while imposing ludicrous travel restrictions and punitive fines for the flimsiest of reasons<sup>(16)</sup>. What is more, he could try to prevent these excesses from becoming known to Israeli and world opinion by refusing the admission to specified «military areas» of journalists, parliamentarians, students, teachers, and others on the occasions when Jews were challenged to present their permits<sup>(17)</sup>. Indicative is the fact that all Israeli parties except Mapai were calling for the abolition of military rule by 1959.

Military rule caused other hardships. In July 1953 Israeli reconnaissance plane was shot down near the Galilean village of al-Tirah. A curfew was imposed and a twelve hour search allegedly turned up illegal arms and infiltrators. On the other hand, the Local Council claimed that the Israeli army had taken advantage of this situation to effect thefts and cruelty amounting to IL 110,000 and that no illegal arms or suspects

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(15) *Op. cit.*, Peretz, 101.

(16) *Op. cit.*, Schiff, 19-22.

(17) *Ibid.*, 23.

were detained. <sup>(18)</sup> Another unfortunate incident happened in the village of Abu Gush in the Jerusalem area. Although the citizens of this village were peaceful with the Jews, they were ordered banished after a grenade was thrown into a nearby Jewish village. The Israeli High Court ordered the annulment of this expulsion, but Prime Minister Ben Gurion defended the army on this decision. <sup>(19)</sup> Just prior to the Suez War on October, 29, 1956, 51 Arab men, women, and children were scandalously murdered in the fields of the village of Kafr Qassim after the military had set a 5 P.M. — 6 A.M. curfew that the villagers could not have known about. Virtually everybody in Israel condemned this incident and IL 1000 — 5000 were paid to the families of the victims as compensation. <sup>(20)</sup>

In April 1957 the Military Governor of Galilee relaxed the controls of the Druze living in Israel. In July of the same year, Ben Gurion relaxed the travel permits imposed on Galileans and lifted the curfew on the inhabitants of the triangle. Not until December 1, 1966 was the military administration further liberalized, although this process was not a total one.

### III. LAND POLICIES, AGRICULTURE, and EMPLOYMENT

It was mentioned above that the Military Governor could dispossess Arabs of their lands if these happened to be found in «forbidden zones» or «zones of military security.» Rachid Hussein affirms that with the dawning of Israeli independence, Arabs present in the country owned about 1 3/4 million dunams. By 1966, less than 1/2 million dunams remained in Arab hands. <sup>(21)</sup> And not infrequently Arabs were leasing their own land from government authorities. The Israelis enacted laws to permit and encourage the process of expropriation. The major law was the *ex post facto* «absent-present» law significantly passed by the Knesset on March 20, 1950. This

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(18) *Op. cit.*, Peretz, 103-4.

(19) *Ibid.*, 104-6.

(20) *Ibid.*, 107-110.

(21) *Op. cit.*, Hussein, 30.

law declared persons in the following categories to be absentees: (1) all citizens of the seven then-independent Arab countries between November 11, 1947 and May 14, 1948; (2) all visitors in those countries during these dates; (3) all Palestinians who had left their places of habitual residence. This law was rigidly interpreted, Sections 27 and 29 made it possible *inter alia* to take the property of these «absentees», who were usually compensated to some extent for the loss of agricultural land <sup>(22)</sup>. The Land Acquisition (Validation of Operations and Compensation) Law of 1953 made possible the expropriation of 125,000 1952 by the Finance Minister for the purposes of settlement, security, or essential development, once again in return for hectares of land not in the hands of their owners by April, 1, compensation to villagers in Galilee and along the Jordanian border who had lost their best lands following the Shouna Agreement. It should be stressed that the Arabs were dependent on the goodwill of the Development Authority for the compensation, and were often compensated for property by 1948 values at 1952 prices. **Ha-Arez** terms these two laws as designed «to legalize seizure.» <sup>(23)</sup>. Dr. Emmon Robenstein, an Israeli jurist, discussed the «absent-present» law in a September 3, 1965 article of the same journal. He suggested that all interested people should.

«Stop ten pedestrians in the streets of Tel Aviv and ask them: Who are these 'absntees'? 9 of them would shrug their shoulders and look at you as if you were crazy. The large majority of the Israeli population believes that the 'Arab refugees' are the people who left Israel for the adjacent Arab of the existence among us of a category of refugees considered countries during the war of liberation. Rare are those who know an 'absentee' although they never crossed the borders of Israel. All persons born in the Arab village of Muthallath are included in this category. These 'absentees' have the right to possess a passport, they pay taxes, and they are obliged to be loyal to the state of Israel, but they nevertheless live within a juridical vacuum. There are even Arab deputies in the Knesset who

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(22) Yitzak Oded, «Land Losses Among Israel's Arab Villages»,

(23) *Op. cit.*, Peretz, 195-6.



participate in the preparation and voting of laws and are considered as 'absents' according to these same laws that they helped to enact.» <sup>(24)</sup>.

As if this were not enough, the Israel Lands Authority contests Arab ownership of every single block of the 1838 blocks belonging to 26 Arab villages on the grounds that the latter can not furnish adequate proof of their ownership <sup>(25)</sup>. Furthermore, Israel's Prescription Law of 1958 stipulates that the occupiers of unassigned land must prove their possession not for ten years (as specified by the Turkish Medjella), but for fifteen-twenty years. Significantly, the framers of this law originally intended to make owners show proof of continued cultivation for fifty years, but Israeli public opinion was revolted by this provision. The Zionists have not enjoyed unmitigated success in their land policies, however. According to Yitzhak Oded, who has closely studied the situation of the Arab minority, Israeli Arabs remain strongly attached to their land. He cites as proof of this fact that the biggest tract that the Government has been able to acquire under the provisions of the Prescription Act of 1958 has been sixty hectares in the Batteuf plain in 1961. <sup>(26)</sup>. Therefore, in order to compensate for its difficulty in obtaining Arab agricultural land, Israel has frequently resorted to the sequestration of buildings of Arab farmers and then arranged a profitable swap with Arab landowners-trying to concentrate as many of its holdings as possible in order to establish settlements. <sup>(27)</sup>.

The 1963 recommendations for Agricultural Development in Arab villages by the Minister of Agriculture and the Joint Agricultural Planning Center limited development plans to the 28% of the farms having more than 3.1 hectares. Additionally, Arabs had made 10,000 claims and received compensation by September 1964 on 15,000 hectares of land for which they received 4000 hectares of land and IL 15 million<sup>(28)</sup>. About one-third

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(24) *Op. cit.*, Hussein, 30.

(25) *Op. cit.*, Oded, 13.

(26) *Ibid.*, 17.

(27) *Ibid.*, 17.

(28) *Ibid.*, 20.

of the original number of claims, or 3,000 claimants, have yet to be settled. The Israeli Lands Administration disposes 40,000 dunams of cultivable land to meet these claims; it leases these holdings to Arab farmers in the period of litigation<sup>(29)</sup>. Oded estimates that approximately 50,000 hectares of claims have not been filed for, due to early filing dates<sup>(30)</sup>.

Oded points out that the trend in Israel has been to resort increasingly to the Land (Acquisition for Public Purposes) Ordinance of 1943<sup>(31)</sup>. This law has been extensively applied to Jews, but in areas of Galilee it took on a different sense. 120 hectares of land above Nazareth were acquired in 1956 to establish the new city of Upper Nazareth. An Arab potter who lost some of this land claimed discrimination, took his case to the courts, and was offered a generous settlement; but other Arabs who were affected by it reacted too late to receive due compensation<sup>(32)</sup>. Benyamin Matovu has said that the Jewish National Fund founded Upper Nazareth «to keep an eye» on the Arabs in the older city<sup>(33)</sup>. A chocolate factory with 200 workers has been built in Upper Nazareth, but less than ten per cent of its employees are Arabs<sup>(34)</sup>. The situation is similar with regard to the textile, razor blade, and car assembly factories in Upper Nazareth, but the one factory in Nazareth—a cigarette factory employing ten persons, had to close down<sup>(35)</sup>. In 1962 a larger block of 550 hectares was acquired in the same manner for «security» purposes from the villages of Deir al-Asad, Nahaf, and Bi'neh. Shortly thereafter the new town of Carmiel was set up. The Arab residents of the three villages received equivalent amounts of land, but this included about twenty kilometers of hills. Meanwhile requests to establish new Arab sett-

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(29) *Israeli Government Yearbook* 1966-67, 34.

(30) *Op. cit.*, Oded, 21.

(31) *Ibid.*, 23.

(32) *Ibid.*, 23.

(33) Benyamin Matovu, «Blue and White Box», *Issues*, XIX, n° 3 (Autumn 1965), 26.

(34) 'Abdul 'Aziz Z'ubi, «Nazareth Looks for Future», *New Outlook*, IV, 1 (October 1960), 32.

(35) *New Outlook*, X, 3 (March & April 1967), 38.

lements in Galilee were rejected<sup>(36)</sup>.

Table I and II explain many things about the place of Arab agriculture in Israel. Bayadsi (Table I) says that the average Arab farm in his survey is 44.4 dunams. Flapan (Table II) indicates that 26.9 dunams is the 1963 average. This discrepancy can perhaps be accounted for by the fact that Bayadsi surveyed only 88 villages whereas Flapan included 104. One can only agree with Flapan who says that the absolute and relative amount of Arab cultivated land per farmer has been reduced since 1949. Flapan goes on to point out that fragmentation of Arab farms has remained relatively unchanged. This, he explains, is due to the fact that only 140,000 dunams of arable land belonging to the larger farms (over 100 dunams) has been transferred by sale or inheritance to 3000 smaller farms, who hold an average of 12 dunams per farm<sup>(37)</sup>.

It is significant that the contribution of Arab farmers to Israeli agriculture has consistently surpassed 11% — the figure representing the Arab population in relation to total Israeli population, except in the domains of irrigated land, fruit plantations, and fish pond. Table III shows how irrigated land is put to use in Israel. It can be seen that in each of the five categories of this table Jewish lands are much more favored than Arab lands. Finally, not to be overlooked is the fact that 50% of the Arabs in Israel have neither farms nor employment and that 72% of those holding land, eke out a submarginal living<sup>(38)</sup>.

Rachid Hussein asserts that the lot of Arab workers in Israel are much better now than in the first decade of the state due to an increase in demand for Arab labor<sup>(39)</sup>. During Israel's first nine years, Arabs were not permitted to adhere to the Histadrut and were subject to discriminatory wages<sup>(40)</sup>. Arab deputy 'Abdul 'Aziz Z'ubi observed that in 1962, 10,000 Arab

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(36) *Op. cit.*, Oded, 25.

(37) Simha, Flapan, «Planning for Arab Village», *New Outlook*, VI, 8 (October 1963), 28.

(38) *Ibid.*, 34.

(39) *Op. cit.*, Hussein, 31.

(40) *Op. cit.*, Peretz, 127.

youths were employed in Tel-Aviv, working as much as seventeen hours per day for minimal wages<sup>(41)</sup>. Needless to say, this lamentable economic situation has given rise to increased social tension. A Government survey admits the existence of 2,047 unemployed Arabs in 1955 as well as 1,390 in 1956. The Labor Ministry's Advison in Minorities, Yehoshua Habusbi, was prepared to admit that 10,000 Arabs were unemployed in 1967 while others felt a figure double this would have been more accurate. (Mohammed Watad, «Combating Unemployment in an Arab Village», *New Outlook*, May 1967, 52).

#### IV. EDUCATION

Although the number of schools for Arabs in Israel has jumped from 59 to over 300, the number of Arab teachers from 250 to over 2,000 and the number of students from 10,000 to over 50,000; the quality of these teachers and teaching aids has not kept up with these increases. Hussein gives three reasons for this: the continued worsening of Arabic instruction due to incompetent instructors chosen only according to their political docility, the progressive elimination of proficient Arab teachers who were politically suspect, and an insufficient number of school books in the Arab schools<sup>(42)</sup>. One result is that only 5% of the primary students can expect to continue in post-primary schools. Moreover, youth clubs, libraries, and leadership training courses are sadly lacking<sup>(43)</sup>.

Only in 1959 was a teachers' training college (Jaffa) established for Arabs and graduates of this school are limited to teaching in the primary schools<sup>(44)</sup>. The only agricultural schools (Kaduri) for Arabs was established at roughly the same date. As late as 1960, only 5 out of 60 Arab school tea-

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(41) 'Abdul 'Aziz Z'ubi, «Té Meet in Partnership», *New Outlook*, V, 1 (January 1962), 26.

(42) *Op. cit.*, Hussein, and «Report on Persecution of Arabs in Israel», n° 2, March 1956, Cairo.

(43) *New Outlook*, II, 8 (May 1959), 62.

(44) Ze'ev Shiff, «Arab Secondary Education in Israel», *New Outlook*, III, 6 (May 1960), 34.

chers in urban high schools had had the minimum requisite academic training. All this has been translated by a small percentage (average around 10% per year) of Arab secondary students passing the matriculation exam, whereas 85% of Jewish students normally succeed in this examination<sup>(45)</sup>.

Nor is this all. Most of the Arab secondary schools are private schools which the Minister of Education rarely inspects due to political and religious reasons. Young Arab students from the villages therefore have additional handicaps—they are obliged to travel to larger villages which have state schools, if they wish to continue their education. Some students, particularly girls, are prevented from attending school for traditional reasons. Furthermore, the Arab municipal and local councils (almost 40% of the Arab villages are without such councils) are typically rather lax; the result being that most classrooms are in overcrowded, rented, private apartments or antiquated buildings. An especially harmful side effect of this situation is that there is no room for laboratories—consequently, Nazareth school was the only school offering a science course in 1960<sup>(46)</sup>. The Ministry of Education accords additional scholarships to Oriental Jews; but not to Arab students having comparable backgrounds.

In 1963, 112 Arab students, of whom 40 were freshmen, attended the Hebrew University in Jerusalem. Only 9 of these came from Nazareth, while an estimated 70 Nazarene students were in the United States with little likelihood of ever wanting to return to Israel. In 1964, there were 160 Arab students at the Hebrew University including 60 freshmen. More than 60 of the total were studying in the humanities (usually either Arabic or English) 30 were in medicine, and 4 in the natural sciences<sup>(47)</sup>. This represents a steady increase, for in February 1958 there were only 57 Arab students at the Hebrew University plus 17 at the Institute of Technology in Haifa<sup>(48)</sup>. There

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(45) Ibid., 32.

(46) Ibid., 34.

(47) Butrus Abu-Mira, *New Outlook*, VII, 2 (March 1965), 45.

(48) *Arabs in Israel*, Israeli Foreign Ministry, 1958, 73.

were about half this many in 1956<sup>(49)</sup>. These Arab students usually work 65 hours per month outside the university, earning IL 1 per hour. Approximately one-third of them live in university lodgings. Generally they report experiencing little discrimination or antagonism from Jewish students and professors.

A survey was run in 1964 on the 1500-2000 Arab university graduates in Israel of whom 457 were traced down<sup>(50)</sup>. It was found that 57 of these were continuing their studies in Israel, 55 were studying abroad (and would probably not return), 142 were teachers, 76 clerks, 29 were employed in other fields including manual labor, 89 were unemployed, and 9 were unavailable meaning that they had probably fled Israel. This confirms the general employment picture of Arabs in Israel. A 1961 optimistic report noted that 5,425 Arabs were in «white collar» occupations (including part time), 1310 in government, 290 in municipal employment, 2050 in education (it is worth noting that the Director of the Arab Department of the Ministry of Education in 1964 was a Jew who could not speak Arabic), 530 in health, 495 in religion (muezzins earning \$ 33 per month are included in this category), and 455 served as public and political (party) administrators.

As far as Arab intellectuals are concerned, the least that one can say is that their lives are quite difficult. Hussein states that the writers are both bitter and eaten by revolt, especially after the closing of their magazine *al-Ard*. The sole recourse for Arab thinkers wishing to expose their point of view is limited to a couple of leftist journals in Israel. Two poets, Samih Kasseem and Mahmud Darwish have had their publications censored by Israeli military authorities; Hussein himself spent two weeks in jail and had to pay a fine for his role in a demonstration against military in a village on the Jordanian border. Salim al-Khoury, a village school teacher has written a novel, *Amina* touching on Arab-Jewish relations in Spain and *Warith al-Jazaar*, a play about Jazaar of Acre's Jewish wazir, Hayim Farkhi. He has published another novel entitled *Samirah* about

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(49) *Op. cit.*, «Persecution», 5.

(50) Abdallah Mansour, *New Outlook*, VII, 5 (June 1964), 27-9.

the progressive emancipation of a Palestinian peasant girl who was abandoned by her husband on the day after her marriage as he went to join the fighting forces. A rising author is Najwa Farah of Haifa who generally expresses a great love of mankind while lamenting the conflict of generations in her plays, short stories, and lyrical prose<sup>(51)</sup>. Arab works are normally published either by the Arab Book Company of Nazareth, the Histadrut's Arab Book Fund or by the Arab Book Company of Nazareth, the Histadrut's Arab Book Fund or by the Greek Orthodox's Youth Club<sup>(52)</sup>.

**Al-Ard** had wanted to present an independent list of Arab candidates for the 1965 legislative elections. Israeli law requires that each candidate must receive at least 850 signatures in order to claim a spot on the ballot. **Al-Ard's** list obtained the signatures of 1450 sponsors, but the Israeli Supreme Court rejected this whole process and obtained the dissolution of this political movement. Mr. Menahem Cohen, a judicial counsellor of the government and member of the Supreme Court, protested that these measures as well as the military's decree ordering the removal of four of the principal promoters of **al-Ard** to another section of the country were antidemocratic<sup>(53)</sup>. Nevertheless all of Israel's parties have earnestly courted the 100,000 Arab electors. Mapai has usually received the most votes, but Mapam and the Israeli Communist parties have traditionally received proportionately more votes from Arabs than from the country as a whole.

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(51) «Auteurs Arabes en Israel», *Jeune Afrique*, n° 244, August 8, 1965 and Ilana Lev, «Najwa Farah», *New Outlook*, VIII, 1 (January 1964), 51.

(52) Shmuel Morah, «Arab Novel Published in Israel», *New Outlook*, III, 1 (October 1959), 58.

(53) *Op. cit.*, Hussein, 31.

(54) V. Malka, «Israel — Les Partis et L'Electeur Arabe», *Jeune Afrique*, n° 249 (October 3, 1965), 7.

**TABLE I**  
**ARAB LAND OWNERSHIP**

<i>Region</i>	<i>No. of Villages</i>	<i>Total Area (du.)</i>	<i>Arable</i>
South	7	10,000	10,000
Central	13	145,000	90,000
Haifa	9	221,000	62,000
Galilee	49	860,000	391,000
Total	88	1,236,000	553,000

Average Property Holdings (du.)

<i>Region</i>	<i>Avg. TA/individual</i>	<i>Avg. Arable/ind'l</i>
South	7.4	7.4
Triangle	5.3	3.3
Haifa	18.5	5.2
Galilee	13.5	6.1
All	11.8	5.3

Arab Farms by Size

<i>Size</i>	<i>Number</i>	<i>%</i>	<i>Area (du.)</i>	<i>%TA</i>
0—19	5342	44.5	43,509	8.1
20—49	3262	27.2	104,877	19.7
50—74	1299	10.8	78,825	14.8
75—99	760	6.3	65,207	12.2
100+	1346	11.2	241,433	45.2
Total	12,010	100.0	533,841	100.0

Land Parcellation in Arab Village (du.)

<i>Size</i>	<i>No. Farms</i>	<i>No. Parcels</i>	<i>%Total</i>	<i>Area</i>	<i>Area</i> <i>of Parcel</i>	<i>Avg/Fai</i>
1— 4	1781	1210	1.7	4,423	3.7	0.7
5— 9	1512	3666	5.1	10,359	2.8	2.4
10— 19	2050	7658	10.7	28,727	3.7	3.7
20— 39	2439	14448	20.2	68,743	4.8	5.9
40— 99	2882	26010	36.5	180,166	6.9	9.0
100—149	753	8793	12.6	89,386	10.0	11.9
150+	593	9247	13.2	152,047	16.1	15.9
Total	12010	71392	100.0	533,851	7.5	5.9

Source: Mahmud Bayadsi, «Land Reform and Israeli Arabs», *New Outlook* IV, 4 (February 1961), pages 20-21.



**TABLE II**

Arab farming in 1949-50	and	1963 (excluding Negev)
No. of Villages Susveyed	121	104
Estimated Population	120,000	171,000
Pop. Owning ag'l land	78,900	95,405
% 3 of 2	65.7	55.5
No. of farms	12,619	14,340
Cultivated area (du.)	486,389	385,993 + 59,652 leased
Average size (du.)	38.5	26.9

### Arab Farming by Selected Branches

Dry farming (du.)	480,473	367,866
Under irrigation	5,916	18,127
Total arable	486,389	385,993
Field crops	406,255	298,461
Plantations	77,193	87,532
Olives	62,800	60,064
Grapes	7,000	9,405
Livestock: cows	8,369	10,999
sheep	14,481	15,694
goats	55,503	62,775
draft	3,104	4,864

Source: «Planning for an Arab Village», Simha Flapan, *New Outlook* VI, 8 (October 1963), pages 25-28.

**TABLE III***CULTIVATED AREA UNDER IRRIGATION (1000 du) 1964-65*

<i>Item</i>	<i>Arab</i>	<i>Jewish</i>	<i>Total</i>
Total	33	1,522	1,555
Field Crops	—	510	
Vegetables, Potatoes & nuts	23	232	
Fruit Plantations	8	632	
Fish Ponds	—	59	
Miscellaneous	2	89	

Source: *Statistical Abstract*, L/4.**TABLE IV***AREA FRUIT PLANTATIONS (1000 du) 1964-65*

<i>Item</i>	<i>Arab</i>	<i>Jewish</i>	<i>Total</i>
Total	127	721	848
Citrus	4	416	
Table Grapes	15	50	
Wine Grapes	—	53	
Pome Fruit	1	51	
Stone Fruit	14	45	
Olives	83	32	
Bananas	—	24	
Subtropical fruit	—	15	
Other subtropical plants	10	35	

Source: *Statistical Abstract*, L/5.

**TABLE V**  
**CULTIVATED AREA OF FIELD CROPS (du) 1963-64**

<i>Item</i>	<i>Arab</i>	<i>Jewish</i>	<i>Total</i>
Grand Total	651,179	2,107,952	2,759,131
Unirrigated	650,775	1,639,864	2,290,639
Irrigated	404	468,088	468,492
Unirr. Winter Total	529,931	1,238,172	
Hay	1,936	295,378	
Green fodder	—	2,525	
Pasture sown	—	3,820	
Silage	—	39,005	
Green manure	—	42,680	
Pulses for grain	11,464	44,215	
Barley	373,749	357,695	
Wheat	136,747	421,554	
Oats	—	13,002	
Sugar beet	4,377	—	
Peas for canning	1,398	4,693	
Safflower	—	12,095	
Miscellaneous	250	1,510	
Summer Total (unirr)	120,844	401,692	
Hay	—	1,267	
Green fodder	—	3,752	
Silage	—	2,514	
Pulses for grain	8,182	5,321	
Maize for grain	595	5,249	
Sorghum for grain	6,072	242,462	
Sunflowers	7,185	19,926	
Sesame	25,448	738	
Safflower	—	166	
Tobacco	18,613	1,857	
Cotton	220	6,672	
Watermelons	26,825	22,102	
Sugarmelons	12,738	9,915	
Pumpkins	—	15	
Cultivated fallow	14,970	80,196	
Miscellaneous	—	260	
Irr'd Winter Total	82	164,257	
Sugar beet	—	52,741	
Green fodder	82	110,479	
Green manure	—	1,037	
Irr'd Summer Total	322	303,831	
Hay	—	4,472	
Pulses for grain	—	376	
Maize for grain	—	7,913	
Sorghum for grain	—	46,235	
Cotton	—	121,336	
Green fodder	322	106,336	
Pasture sown	—	10,102	
Silage	—	4,060	
Green manure	—	—	
Miscellaneous	—	3,001	

Source: *Statistical Abstract*, L/6.

**TABLE VI**  
**CULTIVATED AREA OF VEGETABLES AND POTATOES**

<i>Item</i>	<i>Arab</i>	<i>Jewish</i>	<i>Total</i>
Grand Total	47,611	184,505	232,116
Potatoes	1,057	44,198	45,255
Vegetables	46,554	140,307	186,861
Tomatoes	8,485	22,687	
Cabbage	1,277	5,203	
Cauliflower	1,406	4,290	
Carrots	611	12,397	
Beets	567	2,716	
Cucumbers	5,843	22,590	
Radishes	1,129	3,498	
Marrows	1,786	6,774	
Peppers and Aamba	1,636	8,441	
Egg Plants	1,856	4,036	
Beans	2,820	3,619	
Lubia	837	—	
Horse beans	—	2,163	
Lettuce	100	1,449	
Spinach	—	635	
Kohlrabi	—	544	
Radishes, red	98	856	
Peas	738	2,259	
Sweet Potatoes	—	62	
Okra	2,420	19	
Green Onions	—	13,705	
Garlic	8,716	1,990	
Pumpkins, irr'd	—	357	
Sugarmelons irr'd	—	3,130	
Watermelons irr'd	—	5,130	
Strawberries irr'd	—	1,050	
Other	342	8,405	

Source: *Statistical Abstract*, L/8.

**TABLE VII***AVERAGE YIELDS PER FIELD CROPS (Kg/du)*

<i>Crop</i>	<i>Arab</i>	<i>Jewish</i>
Wheat	85	275
Barley	95	230
Oats	—	155
Maize for grain, unirr'd	170	210
Maize for grain, irrigated	—	450
Sorghum grain, uni'd	80	215
Sorghum for grain, irr'd	—	525
Hay	255	385
Green fodder, uni'd	0	1,500
Green fodder, irr'd	0	7,300
Sunflower	70	80
Safflower	—	35
Sugar beet	2650 (unirr'd)	4635 (irr'd)
Cotton lint, uni'd	—	50
Cotton lint, irr'd	—	125
Cotton seed, unirr'd	—	90
Cotton seed, irrigated	—	195

Source: *Statistical Abstract*, L/11.

TABLE VIII

VALUE OF AGRICULTURAL PRODUCT AT 62/3 PRICES (IL 1,000)  
IN 63/4 (including Intermediate Produce)

Item	Other	Jewish
Total	79,227	1,229,752
Field crops	24,531	205,752
Cereals & pulses	10,303	72,180
Wheat	2,645	91,139
Barley	6,980	17,157
Oats	—	1,000
Maize	23	1,365
Sorghum	105	15,800
Other cereals	—	15,800
Other cereals	—	413
Pulses	550	54,684
Roughage	89	5,306
Hay	59	13,103
Green fodder & silage	30	39,549
Pasture, sown	—	2,032
Industrial crops	5,944	64,234
Groundnuts	176	6,521
Sunflower	700	2,520
Safflower	—	144
Cotton lint	—	35,134
Cotton seed	—	4,336
Sesame	2,063	69
Tobacco	2,009	328
Sugar beet	773	14,420
Other ind'l crops	223	762
Miscellaneous	8,195	14,684
Melons	6,547	6,378
Green Manure	—	699
Straw	1,648	7,607
Vegetables	13,763	76,737
Potatoes	229	18,001
Citrus fruit	2,501	224,308
Other fruit	16,025	166,009
Table grapes	2,843	21,706
Wine grapes	—	12,056
Olives	8,070	5,550
Bananas	—	20,623
Deciduous fruit	3,846	97,688
Subtropical fruit	1,266	8,386
Milk	5,165	114,947
Cow	2,024	103,258
Sheep & goat	3,141	11,689
Eggs	897	130,619
Honey	52	3,156
Change in livestock	—	2,150
Meat (live weight)	13,049	230,327
Cattle	3,675	86,069
Sheep & goats	6,053	10,101
Poultry	741	127,677
Other	2,940	6,480
Fish	759	29,966
Miscellaneous	1,896	27,513
Flowers, etc.	48	6,496
Organic manure	1,515	15,285
Vegetable seeds	333	5,732

Source: *Statistical Abstract*, L/14.

**TABLE IX**  
**PRODUCTION AND ORGANIZED MARKETING OF VEGETABLES**  
**AND POTATOES 1963/4**

<i>Crop Produced</i>	<i>Arabs</i>	<i>Jewish</i>
Total	46,400	377,700
Potatoes	1,700	105,100
Vegetables	44,700	272,600
Total Org'd Marketing	28,296	278,686
Potatoes	84	71,735
Vegetables	28,212	206,951
Tomatoes	9,344	74,207
Cucumbers	5,302	24,308
Carrots	1,307	17,795
Beets	366	4,444
Eggplant	1,457	11,039
Cabbage	917	8,061
Cauliflower	318	3,565
Radish	1,121	4,980
Marrows	1,381	6,690
Spinach	15	671
Lettuce	121	2,674
Green onions	1,051	3,462
Dry onions	817	17,993
Peppers & Gamba	1,221	9,337
Legumes	1,754	3,174
Kohlrabi	16	1,172
Radishes, red	378	2,378
Maize	185	2,369
Horse radishes	—	103
Sorrel	2	64
Garlic	476	741
Parsley & dill	14	869
Celery	1	728
Strawberries	—	970
Sweet potatoes	10	233
Okra	348	45
çMiscellaneous	282	4,834

Source: *Statistical Abstract*, L/21.





## **SECTORS OF THE ECONOMY**



## ISRAEL'S NATIONAL ACCOUNTS

*By YUSUF SHIBL*

### I. THEORATICAL FRAMEWORK

The purpose of this brief theoratical framework is to introduce the reader who is not acquainted with the field of economics to the main concepts that are used in national accounts computations. National accounts are primarily used to measure quantitatively the performance of an economy over a certain period of time. Such measure is used to derive certain implications within the "positive" and "normative" contexts of economic analysis. "Positive" economics refers to that type of economic analysis which describes a certain phenomenon as it exists, while «normative» economics explains the phenomenon as it ought to be, and consequently the latter encompasses all welfare implications that can be deduced.

Economic activity comprises all economic decisions made by people in their capacity as consumers, producers, investors and savers. One can view the whole economy as composed of two main units: business firms and households with the former producing and selling goods to the latter while the latter spending whatever income is received on those goods produced by the former. In such a closed economy a circular flow of income is generated. The identity of production and sales, due to the absence of inventories, then makes either one to be measured by a yardstick called "Gross National Product." Gross national product is equivalent to all goods and services produced by a certain economy over a period of time multiplied by their respective current market prices and accruing to the residents of the country<sup>(1)</sup>. If we denote output as

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(1) Gross Domestic Product, another yardstick used in national accounts, differ from Gross National Product by the exclusion of net factor payment received from abroad. As the name indicates it refers to all goods & services produced domestically.

(Q) and prices as (P) then  $GNP = P_1Q_1 + P_2Q_2 + \dots P_nQ_n$ . However as the price level changes from one year to another it is more useful to present GNP in constant prices so that the change can be attributed to the changes in one variable namely output alone.

The relation between GNP at current prices and GNP at constant prices can be expressed by the identity:

GNP at current prices = GNP at constant prices  $\times$  price level

GNP can be computed from a different angle than the final product approach. Since each firm in the process of production buys inputs from other firms and then adds to the value of those inputs then national output is the sum of value added by all of the firms.

Consider a simple arithmetical example. Firm A produces steel at zero cost and sells at \$ 100 to firm B. Firm B adds to this input and sells an intermediate good to firm C at \$ 150. Firm C uses this good to manufacture motor cars and sells it to the consumers at \$ 500.

$$\begin{aligned} \text{Value added by firm A} &= 100 - 0 = 100 \\ \text{Value added by firm B} &= 150 - 100 = 50 \\ \text{Value added by firm C} &= 500 - 150 = 350 \end{aligned}$$

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$$\text{Total value added} = \$ 500$$

which is just equivalent to the value of the car as a final good sold at \$500 to the consumer.

National accounts can be approached from the act of spending on output and can be presented as total expenditure on consumer goods (C), investment goods (I), government activities (G) and net foreign expenditure (X—M)

$$GNP = C + I + G + (X-M) \dots\dots$$

From this identity we derive Net National Product by subtracting total depreciation of the capital stock:

$$GNP - D = NNP \quad (2)$$

National income is identically equivalent to total remunerations received by Factors of Production in the form of wages and

salaries, rent, interest and profits. It is also equal to Net National Product minus Indirect business taxes

$$NNP - IBT = NI \quad (3)$$

## II. WELFARE IMPLICATIONS OF NATIONAL ACCOUNTS

Very often national accounts are used to derive certain welfare implications. Reference is continuously made to Gross National Product, National income and Per Capital income in the process of comparing between two economies or in the same economy to arrive at certain conclusions. One purpose of such comparison is to know whether a country is «better off» or «worse off» over a certain period of time.

Unfortunately such comparisons don't lead always to valid conclusions and frequently a sizable amount of value judgments have been exercised by professional people and National Accountants. There are several limitations of such comparisons that can be represented by the following illustration: Is an economy with a smaller income and achieving a rapidly economic growth better off than an economy with a larger income and achieving a slower economic growth? In fact many people think so for two main reasons:

1. That the relative change and not the absolute change which is the pertinent indicator of growth.
2. That economic growth per se is a desired goal which «should» be achieved under any circumstance regardless of the cost involved.

Economics as a science offers no answer for such a question as it only explores the consequences arising from following either route. It is obvious that the difference between the two routes lies mainly in the consumption pattern which both have decided to follow. If economy A values dearly the present availability of goods and services over future availability, while economy B places less value on present goods and is willing to abstain from consumption now in order to achieve a higher level of income in the future, then economy B will achieve a

higher rate of economic growth assuming all other factors to remain constant.

Another limitation of such comparisons is the difficulty of comparing two different outputs over time. Is an economy better or worse off with more of goods, A, B, C and less of D, E, F? We can only deduce that it is better off if it has more of each good, other than that it is a purely value judgement even if certain weights are attached to different goods. However such limitations should not obscure the usefulness of national accounts, as they still constitute a useful tool to comprehend the performance of an economy over a certain period of time.

### **III. ISRAEL'S NATIONAL ACCOUNTS**

The first attempt to present national accounts of Israel in a systematic and comprehensive manner was made in 1953 when a research project was undertaken under the auspices of Falk project. The result covering the years 1950-1954 in collaboration with «Central Bureaux of Statistics» was published in October 1956.

The group used the «value added» approach to compute GNP as it was more convenient at the time than the «final product approach».

Comparing national accounts over along period of time in Israel is a tedious assignment and in many aspects meaningless due to the price distortions inherent in the economy and due to the presence of multiple exchange rates which keep oscillating frequently. Instead it is more appropriate to compare short periods over which prices and exchange rates are relatively stable. For this purpose we will study the period extending from 1960-1966.

As for the period 1950-1960 the annual increase in net national product averaged about 10,6 % on the basis of 1955 prices. This rate of economic growth is considered among the

highest in the world. To illustrate Japan achieved a rise of 8,3% while West Germany achieved 7,2% during the same periods where the two countries have the best record of economic growth in the post war period.

This sizable rate of growth which led to a shift in the production frontier of the Israeli economy was the result of a growing labor force concomitant with wide scale immigration and a sizable capital import surplus in the form of gifts, transfers, reparations and loans. Under such favorable conditions the Israeli economy was able to move from one full employment position into another as the production frontier was rising.

The extensive foreign aid pouring into the economy enabled it to avoid the trouble of reducing the consumption level while achieving at the same time a rapid rate of economic growth. Moreover the continuous influx of immigrants saved the Israeli economy from falling a victim to «a stagnation situation» generated by the presence of Capital Saturation<sup>(2)</sup>. This refers to the case where a deficiency of investment opportunities relative to full employment savings arises as the result of incremental investments which will lead eventually to an inevitable decline in income and employment to the extent necessary to eliminate the excess of savings.

As for the period (1960 - 1966) national accounts are presented in three different tables:

1. Table I gives an account of total resources available to the Israeli economy and the breakdown of these resource into different uses.

2. Table II presents Gross National Product according to type of expenditure.

3. Table III presents national income according to source of output.

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(2) The «Stagnation Hypothesis» developed by A. Hansen is based on the Keynesian premise, that the marginal efficiency of capital becomes inelastic with respect to interest rate.

**TABLE I**  
*RESOURCES AND USES OF RESOURCES (at 1964 Prices)*

	1960	%	1962	%	1964	%	1966	%
Private Consumption	4095	50.0	5015	47.0	6122	48.1	6823	50.6
Govt. Cons. and Expenditures	1193	14.6	1570	15.0	1755	13.8	2043	15.2
Gross Domestic Capital Formation	1778	21.7	2347	22.4	2979	23.4	2391	17.8
Export of Goods and Services	1123	13.7	1526	14.7	1864	14.7	2210	16.4
Total Resources	8189	100.0	10458	100.0	12720	100.0	13467	100.0
Minus Imports	2213		3171		3809		3786	
Gross Domestic Product	5976		7287		8911		9681	
Less Net Factor Payments Abroad	—46		—92		—50		—69	
Gross National Product	5930		7195		8861		9612	

Source: *Statistical Bulletin of Israel*, 1967.



4. Table IV shows total gross domestic capital formation and how it is channelled into different sectors of the economy.

Three comments are worth mentioning with respect to table I:

**First:** That half of total resources available to the Israeli economy have been channelled to satisfy private consumption.

**Second :** That Israel has succeeded in boosting its exports both in relative and absolute terms. Percentage wise it has risen from 13.7 % to 16.4 % during a period of six years.

**Third :** That the difference between Gross Domestic product and Gross National product is negligible as the net factors payments abroad comprises a small percentage. This empirical evidence clearly indicates that the huge capital inflow to Israel comes there to stay for good. The income stream generated by this inflow becomes an integral part of the income cycle inside the Israel economy. It does not constitute a burden on the country's balance of payments and the absence of any leakage in the income cycle except the resources necessary to finance the volume of imports make it feasible for the economy to collect the benefits of a successful interaction between the Multiplier and the Accelerator effects<sup>(3)</sup> and consequently the combined effect of both on the level of income. GNP by type of **Expenditure** and source of **Output** (Tables II & III) over the period (1960 - 1966) substantiates the implication derived from Table I. The level of consumption rose to 70% of total GNP and the ratio of investment to Income has been in the neighborhood of 31% except the year 1966 where it dropped to 25%. As the reader can observe the gap of excess imports over exports has narrowed in the year 1966 when it fell to 16.2% as compared with 22.8% in 1962. This was the direct result of Israel's continuous efforts to search for new markets in the world for its exports backed with a comprehensive subsidy programs to encourage those industries that have a potential comparative advantage.

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(3) The Multiplier refers to the effect of additional unit of investment on the level of income while the Accelerator refers to the effect of additional unit of consumption on the level of investment.

**TABLE II**  
*GNP BY TYPE OF EXPENDITURE*

	1960	%	1962	%	1964	%	1966	%
Private Consumption	4095	69.0	5015	69.7	6122	69.1	6823	70.1
Gov't. Expenditure	1193	20.1	1570	21.8	1755	19.8	2043	21.2
Gross Domestic Capital Formation	1778	29.9	2347	32.6	2979	33.6	2391	29.9
(Exports — Imports)	1090	—19.0	—1645	—22.8	—1945	—21.9	—1526	—16.7
GNP	5930	100.0	7195	100.0	8861	100.0	9612	100.0

Source: *Statistical Abstract of Israel, 1967.*

**TABLE III**  
**NATIONAL INCOME BY SOURCE OF OUTPUT**  
*(IL in Million)*

	1960	%	1962	%	1964	%	1966	%
Agriculture	410	12.0	533	11.1	688	9.9	746	8.2
Manufacture	845	24.7	1276	26.7	1809	26.0	2210	24.2
Construction	332	9.7	557	11.6	760	10.9	759	8.3
Transportation	281	8.2	416	8.7	608	8.7	868	9.5
Finance	133	3.9	226	4.7	353	5.9	538	5.9
Delivery	208	6.1	314	6.6	516	9.4	664	7.3
Govt'	659	19.2	911	19.0	1255	18.8	2061	22.6
Trade & Service	656	19.1	937	19.6	1311	18.9	1764	19.4
Less Inventory & Depr.	—81	—2.1	—301	—6.3	—258	—3.7	—420	—4.6
Net Domestic at F.C.	3443		4869		7042		9190	
Less Net Factor Payment	—26		—84		—50		—78	
National Income	3417		4785		6992		9112	

Source: *Statistical Abstract of Israel*, 1967.

The relative share of agriculture to total national income has fallen continuously due to the fact that new increments of land have been subject to the Law of Diminishing Returns. This means that with more intensive use of the existing land and with the scarcity of water resources acting as a constraint on the extension of the present cultivable area the cultivation of new land will inevitably be identified with a rising marginal cost.

One peculiar observation about the structural composition of the Israeli economy is the contrast between the relative share of trade and services to total national income, and the number of people employed in that sector to total employment. Whereas trade comprises around 19% of total national income, the percentage of people employed in that sector constitutes 45% of the total labor force. It explains one of the inherent weakness of the economy where wages are not determined by the marginal productivity of labor but rather by institutional factors and collective bargaining.

The rigidity of wages coupled with many price distortions have deprived the economy from price and wage flexibility as a major corrective instrument to bring it back to full employment once lapses occur. This major weakness has been obscured by the rapid rate of economic growth achieved in the last decade, however it can be easily detected if one compares the potential with the actual rate of growth<sup>(4)</sup>.

Table IV shows the breakdown of gross domestic capital formation among different sectors of the economy. It is noticeable that more attention has been given to the transport and trade sectors while less attention was directed towards agriculture and manufacturing sectors. With the rate of immigration levelling off investments in the construction and housing sectors have reached its peak in 1962 then declined in the four following years.

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(4) Y. Shibl, *Fiscal Policy in Israel* (Beirut: Research Center; 1968) p. 101-106.

**TABLE IV***GROSS DOMESTIC CAPITAL FORMATION<sup>(5)</sup> (1964 Prices)*

	1960	%	1962	%	1964	%	1966	%
Agriculture	255.6	14.4	278.6	11.9	234.7	7.9	198.0	8.3
Manufactury	370.5	20.9	485.1	20.7	557.5	18.7	406.7	17.0
Transport	230.5	13.0	298.8	12.7	628.6	21.1	429.8	18.0
Trade & Service	305.5	17.2	361.4	15.4	511.1	17.1	508.8	21.2
Dwelling	510.9	28.7	787.4	33.5	865.6	29.1	739.2	30.9
Charge in Inv.	105.9	5.9	135.6	5.8	181.8	6.5	108.2	4.5
Total G.D.C.F.	1778.4		2346.9		2979.3		2390.7	
Gross Fixed D.C.F.	1673.0		2211.3		2797.5		2282.5	

Table V indicates the ratio of investment to total GNP in selective Arab countries as compared to Israel.

**TABLE V***RATIO OF INVESTMENT TO NATIONAL INCOME*

	1965
Iraq	21.1
Jordan	20.3
Kuwait	21.6
Lebanon	14.6
Syria	20.8
Israel	24.9

Source: United Nations, *Development Problems in Middle East*.

As Table V clearly indicates the ratio of gross capital formation to national income in Israel is slightly higher than that in Kuwait, and the rest of the Arab Countries, except Lebanon yet the rate of economic growth realized in Israel has been much higher than those Arab countries.

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(5) Gross Domestic Capital Formation is the gross value of the goods added to the domestic capital stock of the country. It comprises both the acquisition of new fixed assets and the value of physical changes in stock.

The disparity is explained by the fact that the rate of economic growth in any economy is a function of two variables: the quantum of investment used, and the capital output ratio prevailing which can be expressed by the formula:

$$r = \frac{I}{k/y}$$

where (r) is the rate of economic growth, (I) the quantum of net investment and  $k/y$  is the capital — output ratio. Since (I) was found to be close then  $\frac{k}{y}$  (the amount of capital necessary

to produce one unit of output) in Israel has to be smaller in order to achieve a higher rate of economic growth. The following factors explain the low ratio in Israel relative, to the rest of the Arab countries:

**First:** the proportion of social overhead capital projects to total investment is lower in Israel than in the mentioned Arab countries. Most of the infra-structure of the economy has been present long before Israel came into existence. Such projects entail higher capital-output ratio than direct investment projects.

**Second:** the increase in the capacity and size of the Israeli labor force has enabled the economy to combine effeciently a highly skilled labor with a substantial capital inflow.

**Third:** the increase in the share of tertiary sector to total national income on the one hand, and the increase in the ability to overcome capital indivisibility on the other hand has lowered the amount of capital necessary to produce one unit of output.

If the increase in the level of wags continue to surpass the increase in the level of productivity then the capital output ratio will eventually rise as the economy sarts to substitute capital for labor. Not only that, also the rate of economic growth is bound to slow down due to the wide scale misallocation of resources caused by the failure of prices and wages to reflect the relative scarcity of resources in the economy.

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## AGRICULTURE IN ISRAEL

By MAZEN SALHA

### I. General Features

Israel occupies an area of nearly 20,700 square kilometers, with differences in altitude ranging from 1,208 meters above sea level at Mt. Atzmon in Galilée to 392 meters below sea level at the Dead Sea area.

The population is slightly over 2.3 million of whom one million have immigrated within the last ten years. More than half the population is concentrated in the densely settled coastal region. The southern region or Negev — about half the state's area — is thinly populated as yet, because its potentialities are largely dependent on irrigation.

As the case with Lebanon, one can see striking differences in the nature of the countryside, within a comparatively short distance. «Within a matter of hours a traveller passes from the desert with its mirages to verdant citrus groves, from held denuded mountains to fertile valleys watered by sprinklers because the farmers don't wish to rely upon caprices of the climate»<sup>(1)</sup>.

Due to this heterogeneity in nature agriculture has faced a complexity of problems that it had to cope with by what ever means and techniques the government could furnish.

#### A. Climatic Conditions

Israel lies in a subtropical zone and could be divided into four clear districts:

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(1) H. Helperline, *Charging Patterns in Israel Agriculture* (London: Routledge & Kegan Paul; 1957) p. 3.

1. Coastal Plain: is warm and humid in the summer and mild in winter. There are no daily fluctuations in temperature and rainfall is adequate.
2. Hill Country: is dry and cool during the summer and cold during winter with sharp severe fluctuations in temperature.
3. Jordan Valley: is warm and dry, with a medium temperature and humidity in winter.
4. The Negev: is a semi arid zone which becomes arid south of Beersheeba down to Elath. It is hot and dry in summer, cold and dry in winter with very little rainfall.

## **B. Soils and their Fertility**

The principal rocks from which the soils of Israel have developed are chalk, dolomite, granite, basalt and sandstone. These soils could be classified into six categories:

1. Alluvial clay soils - found mainly in the Hulah district, Jezreel, Samaria and Galilee. This is the most common type of soil in Israel.
2. Calcareous soils - found mainly in the Jordan Valley and in Beth Shean Valley and is also common in the hill regions.
3. Brown-red sandy soils - principally in the coastal area.
4. Clay-loam soils, falling between the desert and the Negev area.
5. Loess soil in the Negev.
6. Peat soil in the Hulah marsh area.

It is believed that with improvements in techniques of cultivation still further the yield per dunnum may be further increased. In 1948 the average yield of wheat was 75 kilograms per dunnum. In 1959 it became 80 kilogram per dunnum. Today the average yield per dunnum is over 155 kilogram, a notable increase of 100%. The same applies to cotton and sugar beet whose average yield has been increased by four times nearly since 1948 due to intensive methods of agriculture.

**TABLE I***LAND USE POTENTIAL IN ISRAEL (1000 Dunams)*

<i>Item</i>	<i>Under Irrigation</i>	<i>Dry Farming</i>
Total Area of State	20700	
Unsurveyed area	6150	
Surveyed area	14550	
Cultivation of all crops	3940	3390
Plantations and Perennial crops	1340	700
Agricultural use after reclamation	200	—
Natural posture	—	8125
Afforestation	—	1000
Fish ponds	60	60
Built up area	650	650
Ruins and Antiquities	25	25
Wadis and rivers	60	60
Lakes and salt ponds	450	450
Not irrigable	7825	—

Source: *Statistical Abstract of Israel*, 1967.

To conserve and improve the inherent capabilities of land some legislation is needed. This is being done now and consequently the land has been declared as a soil conservation area in which contour cultivation planned reclamation and restricted grazing are enforced.

A Grazing Act to cover all aspects of range improvement, use and grazing rights has been passed several years ago<sup>(2)</sup>.

The Government is seriously concerned about turning large parts of the arid Negev area into a useable cultivated area for subtropical crops. This has not been done yet but the project is under study with water as the major deterrent in the way to its fulfillment.

### C. Mineral Resources

In 1953 the search for petroleum started. Within a period of four years, light oil companies were operating, four Jewish and four foreign. At the Heletz oil field, which was discovered in September 1955, there are at present fifteen producing wells. The average production per well is 100 barrels a day and annual production is over 85,000 tons of crude oil a year. Local production supplies over 5% of total consumption annually.

Most of the mineral resources are concentrated in the southern part of the Negev and in the Dead Sea which contains large quantities of magnesium bromide, sodium chloride, calcium chloride and potassium chloride. Potash and bromide are derived from the southern end of the Dead Sea in large quantities every year.

Ball clay and glass sand deposits of good quality have been found in considerable quantities and provide raw material for the glass, ceramic and chemical industries. Flint clay has been found in small quantities and has already been mined.

There are considerable deposits of feldspar and of quartz

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(2) Ministry of Agriculture, *«The Economy and Agriculture of Israel»* (Jerusalem; Jerusalem Port Press; 1959), p. 7.

**TABLE II**  
**AVERAGE YIELD OF MAIN CROPS (Kg./Dunum)**  
 1948/49 — 1965/66  
**JEWISH FARMING**

Crop	Non-Jewish							
	Farming 1965-66	1948-49	1949-50	1954-55	1959-60	1963-64	1964-65	1965-66
Wheat	60	75	105	90	80	275	245	155
Barley	25	140	110	80	65	230	215	90
Maize for grain (unirrigated)	0	100	115	75	170	210	200	245
Maize for grain (irrigated)	—	—	290	430	580	450	470	425
Sorgham (unirrigated)	0	60	75	85	235	215	170	230
Sorgham (irrigated)	—	—	—	270	485	525	510	560
Hay	220	320	230	230	170	305	365	240
Green Fodder	0	950	900	1050	1150	1500	1700	1650
Green Fodder (irrigated)	0	550	6000	5100	6400	7300	9200	6900
Sugar beet	1970	—	—	3685	4450	5635	4275	5200

Source: *Statistical Abstract of Israel*, 1967.

in the neighbourhood of Elath, but the mines are partly utilized because of costly transportation. Iron has been discovered in the Negev and in Galilée. In the Hula area and in the Falik Wadi there are considerable beds of peat, which may be utilized as fertilizer and fuel.

On the whole, Israel is not richly endowed with mineral resources, but the huge quantities of potash and bromide in the Dead Sea are being marketed in many foreign countries and the demand for them is increasing annually. Most mineral resources are government concerns in Israel, and they have been highly developed during the last decade.

#### **D. Agricultural Land and Agricultural Regions**

Total agricultural land is nearly nine million dunnums of which 4.6 million dunnums are cultivable, the rest being for postures and afforestation:

1. Agricultural Land	8,850,000 dunnums
2. Cultivable Land	4,613,580 dunnums
3. Pastures	3,016,290 dunnums
4. Commercial afforestation	878,100 dunnums
5. Destroyed land and land for non commercial afforestation	231,640 dunnums

Source: *Statistical Abstract of Israel*, 1967.

Cultivable land has more than doubled since 1948 when it was only 1,650 million dunnums. Pastoral land has also grown and so did the area cultivated for fruits, vegetables and the area for fish breeding which has grown by nearly five times.

Irrigated land area has also increased notably over the past two decades from 300 million dunnums in 1948 to 1650 million dunnums in 1966. The limiting factor in expanding irrigated agriculture in Israel is not land but the availability of water resources.

It is believed that because dry farming is economically justified in the north and center of Israel some of this land should rely on normal rain fall so that as much water as possible may be transported to the dry south which is known to be fertile if irrigated<sup>(3)</sup>.

The country could be divided into eighteen agricultural regions, each with its own characteristics and features. Four of these regions are in Galilee and eight of them comprise valleys spread all over the land. The remaining regions form distinctive areas spread variety.

## **II. The Organization and Development of Agriculture since 1948**

The expansion of agriculture in Israel has remained steadily progressive with minor fluctuations, since agriculture occupies a pioneer position in the furtherance of the local economy.

Farming has undergone a profound transformation over the last fifteen years. It has changed fast from an extensive and primitive mainly dry land type into a most intensive, irrigated modern husbandry.

Israel's agriculture from the beginning faced three crucial problems:

1. The development and bringing back into cultivation and agricultural production of over two million dunums of uncultivated land.
2. Food production had to be stepped up as quickly as possible to meet the needs of the fastly increasing population.
3. Agriculture had to provide a source of living for new immigrants who are to be integrated into the young and still frail economy.

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(3) *Ibid.*, p. 5.

TABLE III

## AGRICULTURAL OUTPUT BY REGION OF PRODUCTION

<i>Branch of Farming</i>	<i>% Value of Total Farm Produce</i>	<i>Main Areas of Cultivation</i>
<b>Field crops</b>	(20.6)	<p><b>Wheat:</b> Jezreel Valley Northern Negev, Southern district, Vale of Zebulon, Bethshean Valley.</p> <p><b>Barley:</b> Northern Negev, Southern district, Bethshean Valley, Jezreel Valley, Sharon.</p> <p><b>Fodder:</b> Southern district, Jezreel Valley, Northern Negev, Low-land, Sharon.</p> <p>Sharon, Southern district, Lower Galilee, Jezreel Valley.</p> <p>Southern district, Western and Eastern Jezreel Valley, Sharon and Samaria, Hefer Valley and Upper Galilee.</p> <p>Sharon, Samaria, Southern district, Lower Galilee, Vale of Zebulon, Northern Negev, Jezreel Valley.</p> <p>Judea and Sharon.</p>
<b>Eggs &amp; Poultry</b>	(18.0)	
<b>Milk &amp; Beef</b>	(17.4)	
<b>Vegetables</b>	(16.0)	
<b>Citrus</b>	(11.7)	
<b>Other fruits</b>	( 6.6)	<p><b>Table Grapes:</b> Western Jezreel Valley (18.3), Jordan Valley (10.1), Southern district (9.4), Galilee, Coastal plain.</p>



**Meat:**

**Fish:**

( 4.3)

**Winegrapes:** Northern Negev (33.3), Southern district (18.2), Jerusalem Mountains (12.2), Mountains of Ephraim (11), Lower Galilee, (9.5), Western Jezreel Valley (7.8).

**Apples:** Upper Galilee (37), Western Jezreel Valley (21).

**Plums:** Western Jezreel Valley, Jerusalem Mountains, Western Galilee, Mountains of Ephraim.

**Bananas:** Jordan Valley (51), coastal plain (37), Southern district (6).

**Island Lakes & Rivers:** Kineret, )  
Hulah, ) (10)  
Jordan River

**Fish Breeding Ponds:** (62) found in Upper Galilee (34), and Bethshean Valley (26), Zebulon Valley (14), coastal plain (12), Jordan Valley (10) and Jezreel Valley (4).

Ratio of poultry to the dairy branches 3:1.

These problems have been carefully handled and with intensive agricultural techniques gradually resolved. For although Israeli agriculture has not yet emerged from its first formative stages, it was from the beginning, directed along the lines of intensification. «Agriculture is not intended to occupy a place in the Israeli economy similar to that in many other countries. Israel will never be a predominantly agrarian country, with two thirds of its population in agriculture instead of one tenth as at present»<sup>(4)</sup>.

Before Israel became an independent state its farmers were guided by an agricultural ideology rather than an agricultural policy. They saw in agriculture the basis for the return of the Jewish people to their so called homeland.

The basic principles of Israeli agriculture such as national ownership of land, cooperative production and consumption or both, cooperative buying and selling, cheap credit, organized training, education and research organized housing, sanitation and medical aid, the application of improved agricultural methods, mechanization, manuring irrigation, crop rotation, the elimination of pests, were all gradually evolved over three generations, and were handed over as a crystallized agricultural policy to the first government of the state at its inception. Ideology had prepared the way for policy<sup>(5)</sup>.

The Mandatory Government did not seek to develop the economy. It utilized its unlimited opportunity as the representative of a great power and generously supplied through large imports all necessary commodities, often without regard to the need to protect local production<sup>(6)</sup>.

It was only during world war two that it became necessary to restrict imports into Palestine. Although local agricultural production had advanced conspicuously, it was still far from adequate to supply the demand and imports were never wholly

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(4) Halperin, *Op. Cit.*, p. 251.

(5) Halperin, *Op. Cit.*, p. 251.

(6) Halperin, *Op. Cit.*, p. 251.

**TABLE IV**  
*GROWTH OF ISRAEL'S AGRICULTURE 1948/49 — 1966/67*

<i>Item</i>	<i>Unit</i>	<i>1948/49</i>	<i>1956/57</i>	<i>1966/67</i>
1. Cultivated crop area	1000 D	1,650	3,825	4,265
2. Irrigated Area	1000 D	300	1,200	1,650
3. Gross Output at current prices	I.L. 1000	44,415	450,000	1,450,000
4. Persons gainfully employed	number	50,000	111,700	105,000)
5. Water use	Million m <sup>3</sup>	257	830	1,265
6. Dairy Cows	Head	19,065	43,000	73,600
7. Tractors	Number	681	4,765	12,120
8. Exports	1000 D	18,123	43,646	94,927

Source: *Statistical Abstract of Israel*, 1967.

stopped throughout the period. At present however and due to the large progress of the agricultural sector and the expansion of agricultural production, imports are minimized to the bare necessities.

On the whole nowadays Israel's agriculture is highly mechanized. The production of grains and hay from unirrigated fields is handled almost entirely by tractors, combine harvesters, and automatic balers with a minimum amount of manual labor used. Consequently the number of agricultural machinery and equipment has risen considerably between 1948 and the present time (table VI). Cultivation of irrigated fields and orchards in collective farms are also almost entirely mechanized, the number of work animals being very little.

For heavy equipment needed in operation such as deep ploughing, which is necessary in the rotation of crops, small individual farms turn to the cooperative or tractor stations, established by the Jewish Agency, who own such equipment. Most of the established forms have already become fully mechanized.

### Farm Types

The term «farm type» defines the structure of the agricultural farm according to its main and most important agricultural branch around which secondary branches are built. In established agricultural, the type of farm is the result of experience gained over a period of years and of the climatic conditions, soil and water supply. In new farms, on the other hand, the farm type or farm model plan defines the basic data of area, water, orchards, livestock and equipment of each farm unit that belongs to any of these types as well as the anticipated production. In other words natural conditions of the region, possibility of water supply and capital investment as well as considerations of the national economy as a whole are the determining factors<sup>(7)</sup>.

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(7) *Op. Cit.*, Ministry of Agriculture, pp. 96-97 (adapted)

**TABLE V**  
**TRACTORS AND MACHINES IN AGRICULTURE**  
 (1948 — 1966)

<i>Type of Machine</i>	1948	1952	1956	1958	1960	1962	1963	1964	1965	1966
Tractors	681	3133	4765	5560	7425	8915	9750	10770	11110	12120
Crawler	401	1580	1590	1640	1825	1875	1750	1780	1810	1810
Wheel	280	1553	3175	3920	5600	7040	8000	8990	9300	10320
	261	784	1020	950	975	1025	990	960	780	690
	—	340	420	455	505	555	540	560	580	555
Drawn	—	444	600	495	470	470	450	400	200	135
Boilers	173	563	765	795	845	985	1045	1125	1125	1050
Cotton Pickers	—	—	1	9	50	135	145	160	205	205

One of the principles in every farm type is diversification of branches to reduce the economic risks to balance the labor requirement throughout the year and to attain a rational use of the land. The prototypes now used in new settlements are fixed within four main branches, namely dairy, grains and industrial crops, citrus orchards and deciduous fruit plantations. Nevertheless deviations from the prototypical farm may occur because of local conditions or administrative and social problems, so that in many cases the actual type that develops differs from the one planned<sup>(8)</sup>.

1. **The Dairy Farm:** Dairying is the main industry of this farm type, the herd consisting on the average of three to six milk cows and their calves, the physical area is 28 fully irrigated dunnums, of which 14 dunnums, are for growing fodder with double cropping, the cultivated area being thus 18 dunnums. The dairy (including fodder) contributes 60% nearly of the total annual income and employs 50% of the labor days.
2. **The Citrus Farm :** This type is found mainly along and in the citrus belt (coastal plain). It's main branches obviously being citrus growing, which occupies 8-10 dunnums of the total cultivated area of 28 dunnums. Contributes 60% of the total citrus income and employs 50% of the total labor supply.
3. **The Field Crops Farm :** The main branches of this new type are field crops especially industrial; groundnuts, cotton, sugar, beet, maize and other grains.

The area varies from 34 to 4 dunnums. The total annual water supply is nearly 19,000 m<sup>3</sup> in dry regions and 15,000 16,000 m<sup>3</sup> in rainy regions.

Secondary branches: ten sheep, 100 laying one draught animal.

This type of farm which was started in 1952 shows a satisfactory development, but because of the high profit-

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(8) *Op. Cit.*, Ministry of Agriculture, pp. 96-97 (adapted)

ability of milk and meat produce during the last two years a number of farms of this type have entered dairy business.

Most field crops farms are located in Negev a few also existing in the North and in the Jezreel Valley to the extent that sufficient land is available there.

The type is regarded as successful by the settlement authorities and three land can be found to enlarge the size of the holdings. It is different from dairy and citrus farms in having a larger area but no cows.

4. **Hill Settlements:** These are found in localities between 200-300 meters above sea level or higher (mountain settlements). The special difficulties of development arise from the heavy investments needed for land preparation, the scarcity of local water and its high price, the small and scattered plots and the need for much manual labor.

Many plans have been developed with the intention of finding a solution to these problems and creating a type of farm which will enable the farmer to reach an adequate level of farming, similar to that of settlements in the plain. All the plans include three main branches - plantations, range and irrigated as well as unirrigated field crops.

The annual water allocation varies between 4000 and 6500m<sup>3</sup> per farm unit, whilst annual labor requirements are 420 man-days of 10 hours each.

The planning authorities believe that adequate profitability will only be reached if water prices are subsidized and special relief granted in respect of the repayment of international loans and rates of interest.

There is an opinion that the suitable type for hills and mountains is the «linked farm» where branches with seasonal peaks in which hired labor is required, are linked with other sources of income in the slack periods when the farmer works outside his farm.

Absorption of new immigrants created numerous problems at first and in turn confronted the government and the settlement authorities with a complexity of difficulties. Serious socio-

logical, cultural and ethnic problems were generated by the existence of distinct clans and communities among the new comers and often the government had to choose between the alternatives of establishing a village with settlers coming from a single country or province abroad or endeavoring to mix two or more such communities in settlement. Both methods have their advantages and disadvantages. On one hand there is a danger of mixing settlers because that may lead to internal dissension, lack of confidence and the development of a feeling of inferiority among the less advanced elements thus jeopardizing the functioning of the whole settlement. On the other hand if settlers of one source are put together this may lead to the transfusion to Israel of certain customs and norms that are not wanted or of family rivalries and struggles for communal supremacy<sup>(9)</sup>.

Difficulties of absorption were also reflected in the fact that the percentage of unemployed or partially employed were higher among the new immigrants than in the older population. Unskilled labor found it particularly difficult to obtain steady and full employment while skilled workers or people with experience, found their place in the economy with greater ease.

To help with the absorption process the settlement authorities have established transitional work camps (*maabara*). These camps were planned primarily with a view to enable the new immigrants to work for their living. While at the same time they facilitated the development of some what better housing conditions. The residents of these camps are employed in the vicinity and constitute a reserve of candidates for the establishments of permanent settlements, of either a rural or urban character. Gradually they are integrated into a neighbouring established settlement by the construction of more stable housing on the site of the *Maabara* or in the immediate neighbourhood.

The *Moshvei Olim* (immigrant settlement) and the *Kfar Avada* labor village) are also new types of settlements made with the purpose of acclimatizing new settlers. These new set-

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(9) *Op. Cit.*, Halperin, pp. 116-117 (adapted).



tlements were seriously needed to cope with difficulties and problems facing agriculture at the start. «It is not enough to teach new settlers the elements of ploughing and seeding the land, the art of harnessing a mule and milking a cow. The farm is something more than a mere food factory and there is always the danger under conditions obtaining in the country, that if these villages were not inspired by national and political ideals and if their social basis was not stable and cooperation non-existent, then any crisis that farming or the state or even the district in which the settlers live may experience, will be followed by the collapse of all constructed work»<sup>(10)</sup>. Consequently from the start every possible assistance to these new settlements was seriously undertaken.

**Agricultural Education :** There are thirty agricultural schools spread all over the country. The schools include agricultural secondary schools and special schools for training gardeners and fishermen (including sea fishers).

Expenses per student (boarding, laboratory equipment, farm branches etc.) are relatively high and farm income covers only some sixty percent of the cost; the deficit being met by the government. To enable more children to acquire an agricultural education the Ministry of Agriculture opens day classes, with costs lower by 50% and enlarged school capacity.

In agricultural schools agricultural studies occupy 27% of the time with 35% of the time devoted to science studies and 24% of the time to humanities and Jewish studies. Study of English is also done and takes up 10% of the time.

Each school has developed an educational farm that is both suitable for thorough training and provides a good source of income. The number of teachers and instructions occupied in these schools is about 2000. To increase this number the faculty of agriculture in the Hebrew University has opened two training courses. Annual scholarships ranging from IL 120 to IL 250 are given to students unable to meet training expenses. There are agricultural evening classes as well for those who are working in farms during the day.

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(10) *Ibid.*, p. 123.

Exchange of young farmers between Israel and other countries is used to acquire new ideas and techniques from other countries<sup>(11)</sup>.

### III. Development of the Main Farm Branches

The average yield per unit of land and head of stock improved significantly after a certain decline in the first years following 1948. Field crops have especially shown an upward trend because of the growing need for livestock feed stuff. Fluctuations in crop production are not of major importance. They arise from seasonal rather than any change in the area, sown. However, this area for field crop cultivation particularly the irrigated area has shown considerable increase.

Furthermore industrial crops, especially cotton, sugar beet and groundnuts have shown a noteworthy increase in cultivation and production over the last decade, which points out that the government is trying to encourage industrialization of agriculture and agricultural products. This, of course, would act to reduce the dependence of Israel's economy on the risky and unstable demand of the world market for raw agricultural products.

Citrus which constitutes the main export item of all agricultural products stemming from highly efficient organization owing to the existence of an authoritative controlling body — «The Citrus Marketing Board». This has shown a very large spread and is now one of the most widely cultivated plantations in Israel. Moreover there is a growing tendency to grow subtropical fruits such as bananas, grapes and stone fruits.

Livestock branches in Israel have shown an immense expansion over the last ten years so that it is said today that «the livestock branches of Israel farming are experiencing a crisis — not biological, nor even an economic crisis, but a crisis of planning»<sup>(12)</sup>. It is believed that the further expansion of

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(11) *Op. Cit.*, Ministry of Agriculture, p. 1.

(12) *Op. Cit.*, Halperin, p. 153.

livestock be restricted, because the country's economic straits make dairy too expensive a source of animal protein and because the cow requires large areas of land. In spite of these criticisms the amount of livestock and their products have continued to expand at an increasing rate year after year until at one time it created a marketing problem leading the Government and the various marketing boards to take severe and immediate action to limit this growth. The reasons for this progressive growth could be summarized in four points:

- (i) Elasticity of livestock products is higher than most other foods.
- (ii) Restricted quantities of water and land available make it easier to expand poultry farming than other agricultural branches.
- (iii) The desire of many farmers to refrain from employment of hired labor for social and ideological reasons.

In a similar way the breeding and production of fish has grown notably since 1948, especially after the Government has taken steps to encourage all forms of sea fishing by giving subsidies to fishermen.

Moreover the afforested area has grown considerably, most of the increase going to the hand of the Jewish National Fund. One of the main present objectives in forest planting is to create a source of employment either on relief works or for new farmers in the initial period of their settlement.

#### **IV. Irrigation and Water Resources**

Agricultural lands have been classified into irrigated and non-irrigated because some arid lands are of limited use without irrigation. Other factors too may limit land use such as topography and elevation. Soil has been classified into seven categories :

- 1-3: Suitable for all kinds of cultivation crops with introduction of various conservation methods.

**TABLE VI**  
*CITRUS OUTPUT, BY ECONOMIC DESTINATION 1964/65 & 1965/66*

	Quantity in 1965/66 (100 tons)	Value at Current prices (LL million)		Percent Increase decrease (—) From 1964/65 to 1965/66	
		1964-65	1965-66	Quantity	Price
Direct export	580.0	193.9	217.8	16.3	2.8
Industry	214.7	18.0	17.7	-1.4	3.6
Direct domestic consumption	73.	14.8	17.7	19.1	15.2
On-farm consumption and private sales	35.5	9.4	11.1	18.5	15.4
Intermediate goods	1.0	1.4	0.1	-94.2	12.0
Total	904.6	237.5	264.4	11.3	4.1

Sources: Bank of Israel — Annual Report 1966, Jerusalem, May 1967.

- 4: Suitable for plantation and pastures etc.
- 5: Suitable for natural pastures only
- 6: Suitable for forests
- 7: Suitable for any agricultural use.

The main source of water is rainfall which is estimated to give six billion cubic meters per year. The main sources of water other than rainfall are :

- (i) Flows of rivers and springs
- (ii) Flood water
- (iii) Underground sources

It is believed that water development projects may increase water resources by up to 2 billion cubic meters annually.

## **V. Output, Income and Subsidies in Agriculture**

Agricultural production and output has been increasing continuously over the past two decades at an average annual rate of growth of around 14%. This has been mainly due to the establishment of new agricultural settlements, the irrigation of additional areas, the introduction of new crops and the improvement and mechanization of production methods. The cultivated areas have been extended from 1,650,000 dunums in 1966/67 and the irrigated area increased from 300,000 dunums in 1948 to 1,650,000 dunums in 1966. Consequently the gross output at current prices has increased from I.L. 44,413,000 in 1948/49 to I.L. 1,450,000,000 in 1966/67.

Livestock increased concurrently and stocks of agricultural machinery increased at higher rates which is suggestive of the progress of mechanization. The rate of growth of agricultural production shows considerable annual fluctuations due to drought in the southern region and in other parts sometimes recurring every two or three years.

In some branches such as vegetables, potatoes, milk, eggs, live-fish and poultry, the increase in production has yielded supplies flooding the market and causing turbulent fluctuations

**TABLE VII**  
*DEVELOPMENT OF THE LIVESTOCK BRANCHES*

	1948	1955	1960	1966
Cattle Total	33580	84100	185450	171110
<b>Dairy Cattle</b>				
Cows	19065	36500	63100	68300
Heifers	4540	8000	19500	19500
Calves	9615	28200	45200	32300
Bulls	360	300	200	160
Beef Cattle	—	11100	58450	56850
<b>Poultry (100)</b>				
Laying Hens	1426	3100	7500	6800
Geese, Ducks, Turkeys	21	170	800	1100
<b>Sheep &amp; Goats</b>				
Sheep	22000	90000	117000	124000
Goats Improv- ed breed	4900	45000	32000	28500
Goats Local	—	—	—	—
<b>Work Animals</b>				
Horses & Mules	5000	13500	16500	13500
Donkeys	2300	5000	5000	—
Gamels	—	—	—	—
Beehives	23000	38000	47000	65000

**TABLE VIII***AFFORESTED AREA BY OWNERSHIP (1000 Dunmums)*

<i>Year</i>	<i>Total</i>	<i>Government</i>	<i>J.N.F.</i>	<i>Other</i>
1948/49	53	13	25	15
1949/50	69	21	33	15
1950/51	107	36	56	15
1951/52	133	42	76	15
1952/53	148	44	59	15
1953/54	163	52	96	15
1954/55	195	68	111	16
1955/56	222	76	130	16
1956/57	231	85	130	16
1957/58	252	102	136	14
1958/59	279	109	156	14
1959/60	299	109	176	14
1960/61	326	109	203	14
1961/62	347	109	224	14
1962/63	367	109	244	14
1963/64	394	109	271	14
1964/65	417	109	294	14
1965/66	440	109	317	14

**TABLE IX***AGGREGATE WATER RESOURCES ANNUALLY (in million M3)*

Upper Jordan	700 — 750
Yorkon	240 — 250
Springs	220 — 270
Underground sources	900 — 1200
Floodwaters	190 — 340
Purified sewage	80 — 120
Underground and flood water in the Araba	60 — 120
Return flow from irrigation	250 — 350
Total	2640 — 3400
Losses	240 — 400
Net Supply	2400 — 3000 million M3

Source: Ministry of Agriculture, «*The Economy and Agriculture of Israel*»  
Jerusalem, Jerusalem Port Press, 1959, P. 70.



**TABLE X**  
**WATER CONSUMPTION IN AGRICULTURE**  
*(Million Cubic Meters)*

<i>Disposal</i>	<i>1948-49</i>	<i>1949-50</i>	<i>1952-53</i>	<i>1954-55</i>	<i>1957-58</i>	<i>1959-60</i>	<i>1961-62</i>	<i>1962-63</i>	<i>1963-64</i>	<i>1964-65</i>	<i>1965-66</i>
Total	257	332	563	760	1000	1060	1125	1140	1025	1095	1265
Field crops	45	54	114	184	290	300	345	350	290	320	390
Vegetables, Potatoes & Groundnuts	35	59	137	153	155	155	135	140	105	120	140
Fruit plantations	108	114	139	216	315	370	405	420	415	440	515
Fish ponds	62	92	146	163	185	183	180	170	160	160	160
Miscellaneous	7	13	27	44	55	52	60	60	55	55	60

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Source: *Statistical Abstract of Israel*, 1967.

in prices. Fruit, beef and mutton, on the other hand have been considerably higher than the average price level of most agricultural goods.

As a result of the divergent rates of growth of the various branches of farming and owing to differentials in price development, the make up of Israel's agriculture under-went several changes in recent years.

In 1958/59 income generated from agriculture was 2% larger than the preceding year, reaching nearly I. L. 353,000, mille. Its average annual growth between 1953/54 and 58/59 had been 21%. The relative stability of income despite the quantitative increase of 24% in the branches added value was due to a fall of 19% in the input and output prices .

In 1959/60 the expansion of agricultural output proceeded more slowly than the preceding five years especially as compared 1958/59. Gross agricultural output increased by only 3% as against 17% the year before. The main reason being a severe drought which hit Israel's agriculture limiting the expansion of its output.

During 1960/61 national income originating in agriculture went up by 75 million pounds or 20% over the preceding year reaching I. L. 448 million. Total agricultural output increased by 9% due to good weather conditions which resulted in a relatively large increase in the output of field crops and fruit following the poor yield of the three preceding years.

In 1961/62 agriculture continued to expand although at a slower pace due mainly to bad weather conditions. The real income in total agricultural output was 7% as compared with 9% in 1960/61. The total income of the agricultural sector grew by I.L. 38 million reaching I.L. 494 million reflecting the rate of expansion. 1962/63 saw a faster rate of expansion though, the slow trend of growth that started in 1958/59 continued during the year in question. Income originating in agriculture increased to I.L. 532 million.

Agricultural production in 1964/65 showed a considerable change from the trend of the preceding years. Despite the absence of frost or drought the real agricultural output dropped

**TABLE XI**  
**GROWTH OF AGRICULTURAL OUTPUT (Quantities)**  
*1948/49 — 1965/66*

<i>Commodity</i>	<i>Unit</i>	<i>1948/49</i>	<i>1955/56</i>	<i>1956/57</i>	<i>1965/66</i>
Total					
Cereals	Tons	54950	120500	11000	141600
Green Fodder and Silage	Tons	372800	940300	1217400	1423000
Industrial					
Crops	Tons	2550	61935	98430	375220
Vegetables & Potatoes	Tons	106000	323500	335000	447800
Citrus	Tons	272700	352000	439100	904550
Other Fruit (including olives)	Tons	39200	101900	97400	273080
Milk	Kiloliter	85950	209600	224800	393600
Meat	Tons	7590	36300	37900	122350
Fish	Tons	3500	10900	11400	22550
Eggs	1000 units	242500	510000	630000	122350

**TABLE XII*****TOTAL AGRICULTURE OUTPUT BY ECONOMIC DESTINATION****1964/65 and 1965/66**IL (million)*

	<i>Value at current</i>	
	<i>1964/65</i>	<i>Prices 1965/66</i>
<b>Output marketed</b>		
Direct local		
consumption	530.3	557.4
Industry	350.6	368.0
Export	252.2	281.4
Total	1133.1	1206.8
<b>Output Retained</b>		
<b>on Farms</b>		
Own consumption	72.5	81.0
Capital goods	66.4	62.0
Agricultural	152.4	131.5
raw materials		
Total	291.3	274.5
Grand Total	1424.4	1481.3

by 2.5% as compared to an advance 17.5 in 1963/64. The reason was mainly due to a slower expansion of the inputs used coupled with a drop in productivity. There was no increase in total agricultural output whereas in the previous year it had grown by 13%. Income originating in agriculture increased by I.L. 46 million and totaled I.L. 710 million, the growth rate was 6.8% as against 8.5% in 1963/64, the reason being to the higher prices of inputs. Factor productivity (gross per unit output of capital and labor) declined by 2% after having risen by 8% in 1963/64. Total output per unit of total input also fell down somewhat following an advance of 7% the year before.

Real agricultural product declined in 1965/66 continuing the trend of the previous year. The decrease in real product over the last two years was the outcome of both natural conditions and the declining trend in the product growth rate discernable since the 50's.

Agricultural product expanded by 4% as against 2% in 64/65. Income originating in agricultural increased in 1965/66 by 2.5 million or about 0.5% as compared with I.L. 46 million in 1964/65 and I.L. 56 million in 1963/64.

## **VI. Agricultural Exports and Subsidies**

Agricultural exports increased by nearly five times between 1948/49 and 1965/66 (from I.L. 18.1 million to 95 million). This increase was mostly absorbed by the increase of the export of citrus fruits which increased from around 18 million to well over 74 million in 1965/66.

The industrialization of certain fruit products and vegetables has also created some exports particularly of juices. Furthermore Israel has become a large exporter of eggs (around 4 million pounds worth in 1966). To encourage foreign trade, exporters receive a premium on every dollar of added value and the Export Board exists to offer guidance in the technical and economic problems of agricultural exports citrus which remain the responsibility of the Citrus Marketing Board.

The contribution of agriculture to the improvement of the balance of payments is significant in the production of import

substitutes also. Its share in the total supply of feed stuffs which have risen by nearly 70% at present. Imported feed stuffs for animals on the other hand have been subsidized by allowing in their case an exchange rate lower than the official one and by fixing official prices for their local use.

Government subsidies to agriculture are paid either on final products or on the use of product factors by the farmers usually in order to achieve one or more of the following objects:

- (i) Aid to new agricultural settlements.
- (ii) The maintenance of stable retail prices.
- (iii) The encouragement of production of agricultural export commodities or substitutes for import goods.
- (iv) The encouragement of the consumption of certain agricultural products.
- (ii) The use of certain factors of production.

An equalization fund was established to take care of the price fluctuations in the world market. This continued until 1956 when the subsidization of food-stuffs was discontinued leaving a certain net revenue in the equalization fund.

Subsidies for fertilizers were put with the aim of encouraging their use. As long as fertilizers were imported farmers in Israel got them at low subsidized prices. Once local production of fertilizers reached a level sufficient to meet local demand, imports were stopped and the subsidies granted to the fertilizer plants also.

Furthermore subsidies for industrial crops were given to encourage their innovation. Experiments on sugar beet, sugar cane and long staple cotton have given successful results and have very good prospects for the future.

The marine fishing branch enjoys a subsidy to protect it from cheap imports and encourage its development. A special fund was set up, which guarantees the fishermen a certain minimum return for labour day. The fund is financed by a levy of 7% on the value of the fish sold plus a government contribution of 50% of the levy raised. Another way by which fishermen

**TABLE XIII***AGRICULTURAL EXPORT 1949 — 1966 (100 \$)*

<i>Year</i>	<i>Eggs</i>	<i>Citrus</i>	<i>Total Ag. Exports</i>
1949	7	18000	18123
1950	—	16755	16997
1951	—	15884	16129
1952	—	16519	16688
1953	13	21598	22087
1954	184	33456	35754
1955	156	31605	34137
1956	652	40160	43646
1957	638	48425	54353
1958	4871	48400	56842
1959	6714	45943	58063
1960	10693	46626	63153
1961	12160	40514	62603
1962	8645	49240	68378
1963	5208	74718	89005
1964	5995	52810	66699
1965	4989	71195	86522
1966	3813	74733	94927

were helped was by selling them fishing boats by the government at 50% of their value. Moreover special measures have been adopted in the form of export premiums and equalization funds to encourage agricultural exports.

In 1957, an Export Company was established under agreement between the government and the marketing cooperatives. The task of the company was to encourage agricultural exports by investigating overseas markets, adjusting local production, sorting, packaging, to demands abroad, taking care of transportation and so forth. The main items that the company handled were perishables such as eggs, bananas, vegetables, fruits and flower bulbs.

## **VII. Agricultural Investments and Planning**

Until 1958 agricultural investments showed increasing rates of growth. This was mainly due to the huge financial aid collected by the various Jewish institutions from all over the world. In 1958 the influence of the falling profitability in agriculture caused investments to decline by 3% totaling I.L. 189 million. In 1959/60 prolonged financial difficulties experienced by many farmers caused a considerable decline of investments continuing the trend from 1958.

In 1960/61 investments amounted to I.L. 96 million the same as 1959 but still reflecting a downward trend of 5% due to a rise in investment prices. The year 1961/62 witnessed a decline in real investments in farms consecutively for the fourth year continuing.

During 1962/63, the falling trend likewise continued chiefly in investments in livestock and young orchards, and in the volume of public works such as afforestation and land reclamation. The only agricultural investments that increased during the year.

Agriculture made no progress during 64/64 and 64/65 but on the contrary continued the falling trend evident since 1957, the reason being ascribed primarily to domestic marketing limitations.



**TABLE XIV**  
**GOVERNMENT CASH SUBSIDIES IN AGRICULTURE 1953/54 — 1966**  
*IL Millions*

	<i>Subsidies on Final Products</i>	1953/54	55/56	57/58	59/60	61/62	64/65	65/66
Milk		3.5	9.6	11.7	12.5	20.1	32.7	29.7
Meat		—	—	—	3.0	6.2	8.1	4.1
Eggs		2.5	1.4	4.0	19.4	17.9	27.0	24.0
Vegetables		—	4.8	21.3	5.1	4.8	11.0	9.2
Other		0.8	3.1	4.9	7.7	14.7	20.4	24.2
Total		6.7	16.9	41.9	47.7	63.7	98.7	91.2

## VIII. Conclusion

Natural conditions in Israel have required maximum intensification of agriculture, causing this sector to become one of the foremost leading sectors in the country's economy. Consequently the fast spread of agriculture in the first years of the state caused the creation of hazardous over expansion beyond the country's absorptive capacity and more than what it was able to export to the world market. The results of this unorganized haphazard growth have started to show in effect since 1958 when the beginning of a downward trend in agricultural investments showed itself and continued year after year up to the present time. One can conclude from these results that Israel's agriculture has fallen as a prey of bad and unorganized planning by the government. It is easy to expand and glut the market causing price and income disturbances as has happened several times during the last decade. However, the important thing is to be able to plan properly and have complete control over expansion and growth, a thing which Israel's Government failed to do.

One must not completely discredit the functioning of this sector, for it is also noticeable that although investments in agriculture have continued to fall, output has shown an increasing trend. This points out that the capital output ratio has fallen a fact reminiscent of most developed economies. Furthermore, it can also be observed that although the number of gainfully employed people has dropped during the last decade by about 4% gross agricultural product did not decrease but in fact continued to rise which proves that there was and may still be a large number of underemployed persons, that could be shifted to other sectors which need development in the economy.

It cannot be denied however that agriculture remains to be the life chord of Israel's economy. The fact remains nevertheless that agricultural development in Israel must proceed in a carefully organized and planned manner especially that the fast growth of the remaining sectors is putting heavy and new demands on it every year. One must not be led to believe that due to the prevailing pattern of investments in the last decade,

**TABLE XV**  
GROSS INVESTMENT IN AGRICULTURE 55/56-66

<i>Investment in Farms</i>	1955/56	57/58	59/60	61/62	63/64	65/66
Orchards	19	32.5	32.2	29.3	38.1	31.8
Livestock	—	—	29.0	29	21.7	4.5
Farm installations	18	10.9	14.9	11.0	18.5	27.4
Machinery and other	32	98.7	24.4	40.3	53.9	47.5
Total	69	143.9	97.7	109.6	132.2	111.2
<i>Investment in Public Development Projects</i>						
Water projects	42	41.8	57.2	112.6	82.8	76.6
Other	10	25.3	22.5	24.7	27.6	31.6
Total	52	67.1	79.7	137.3	111.4	107.2
Grand Total	121	211.0	177.4	246.9	243.6	218.4

the agricultural sector is losing its value and importance. On the contrary, these results are only a correction of the mistakes of the first starting years.

# INDUSTRY IN ISRAEL

By GEORGE KUNDAKJI

## I. INTRODUCTION

Israel has an economic system which allows for the existence of private enterprise side by side with a special type of labour and government owned industries.

During the mandatory period, the government regarded as hopeless the industrialization of a territory which it believed should remain primitively agricultural producing wheat, barley, citrus fruits and olives. Consequently, the government pursued an economic policy which slowed down industrial development by denying Arab and Jewish manufacturers protection through tariffs against the competition of dumping in a world rent by customs, wars and import allocation<sup>(1)</sup>. Nevertheless, the gross output of the Jewish industry rose from PL 2.1 million in 1929 to PL 36.3 million in 1942, while the number of persons engaged in it rose from 7600 in 1930 to 46000 in 1943<sup>(2)</sup>.

Towards the conclusion of the mandatory period, the main industries in Israel were food processing, drinks, tobacco products, clothing and textiles, metal working and electrical appliances, printing & paper as well as chemicals ceramic & diamond cutting<sup>(3)</sup>. However, the majority of these industries were sort of «dwarf-shops» employing less than 10 hired workers.

At the establishment of the State in May 1948, the Arab exodus of 726,000 persons took place from Israeli-held land to

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(1) A. Marcus, *Industry in Israel*, (Israel Digest, Jerusalem, 1959) p. 4.

(2) *Ibid.* p. 4.

(3) *Ibid.* p. 5.

neighbouring countries<sup>(4)</sup>. The emigrants had been mainly engaged in agriculture and their departure caused a drastic drop in agricultural products. Furthermore, this conflict disrupted trade between Arabs and Jews; thus, the new state was cut off from most of its former sources of supply of raw materials, and from natural markets for its manufactured goods. This in addition to the low productivity of agriculture made the government exert special efforts to attract people to agriculture. Hence, subsidies and funds were created whereas industry was left in the hands of private investment. Nevertheless, the Knesset passed a law in 1952, revised in 1955, for the encouragement of private capital investment which granted special privileges to foreign investors<sup>(5)</sup>. This led to a large portion of the capital coming from abroad to be invested in industry. Although the government refrained from direct engagement in industry, the Histadrut (General Federation of Trade Unions) ventured in several basic industries where private capital was reluctant to enter.

## II. INDUSTRIAL BRANCHES AND THEIR PERFORMANCE

Table(I) gives in detail the pattern of employment according to size of the various branches of the industry as well as the size and number of these branches. Table(II) shows the gross output produced by the different branches of the industry. The main branches of the industry have different relative rates of expansion. Branches dependent on domestic market's demand for consumer goods, such as most of the food industry, part of the clothing branch and the leather sector; in general expanded at lower rate<sup>(6)</sup>. On the whole, branches producing durable consumer goods, and consumer goods mainly purchased by the upper income group in the home market, ex-

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(4) United Nations, *The Development of Manufacturing Industry in Egypt, Israel & Turkey*, (Department of Economic & Social Affairs, New York, 1958) p. 6.

(5) *Ibid.* p. 6.

(6) *The Bank of Israel Reports*, (Jerusalem, 1960) p. 145.

**TABLE I**  
*ESTABLISHMENTS, EMPLOYED PERSONS BY\* MAJOR BRANCH & SIZE (1965)*  
*Major Branch*                      *Employed Persons*                      *Establishments*

	5+	1-4	Total	5+	1-4	Total
Total	188883	33909	222792	7544	16984	24528
Mining & Quarrying	4181	80	4261	99	26	125
Food incl. beverage & tobacco	27857	2730	30587	967	1127	2094
Textiles	25248	1030	26278	564	443	1007
Clothing & mode up textiles	10819	4573	15392	671	2595	3266
Wood work products and furniture	14107	6273	20380	860	3030	3890
Paper cardboard and their products	3005	247	3252	121	92	213
Printing & Publishing	7829	1096	8925	369	470	839
Leather & its Products	4067	3373	7440	310	2269	2579
Rubber & Plastic products	5715	319	6034	189	122	311
Chemicals	8360	397	8757	205	157	362
Non metallic mineral Products	10842	979	11821	364	415	779
Diamond Industry	7617	192	7804	314	82	396
Basic Metal Industry	4245	178	4423	87	77	164
Metal Products	14432	2804	17236	687	1332	2019
Machinery	9698	2690	12388	526	1202	1728
Electric & Electrical equipment	7497	1415	8916	281	714	995
Transport Equipment	19944	3490	23434	690	1554	2244
Miscellaneous	3420	2039	5459	240	1277	1517

\* Statistical Abstract 1967 (page 371).

Source: *Statistical Abstract of Israel*, (Central Bureau of Statistic, No. 18, Jerusalem 1967) p. 371.

**TABLE II**  
*GROSS INDUSTRIAL OUTPUT BY BRANCH AT 1958 PRICES\**  
*(in Million)*

<i>BRANCH</i>	<i>1958</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>1962</i>
Mining & Quarrying	31.3	51.3	57.2	70.2	77.6
Food	434.2	501.8	559.0	618.4	684.5
Textiles & Clothing	371.1	405.9	468.7	548.3	627.5
Wood, Carpentry, Paper Printing & Publishing	111.1	117.4	140.4	158.5	173.1
Leather & Its Products	80.1	79.4	83.5	89.8	100.9
Rubber & Plastics	51.3	65.3	77.3	88.9	101.5
Chemicals	141.2	176.1	186.4	210.0	226.4
Oil Refining	66.0	72.3	76.8	90.8	112.7
Non-metallic Minerals	106.4	118.1	129.3	146.0	176.6
Diamonds	69.0	95.3	126.4	153.4	189.7
Basic Metals & Pipes	39.3	46.4	59.3	91.7	105.8
Metal Products	142.7	170.5	167.1	195.4	206.6
Machinery & Electrical Equipment	65.5	77.4	93.7	115.8	121.0
Household Equipment & Appliances	74.3	84.8	99.0	118.4	140.5
Production & Repair of Transport Equipment	89.3	102.1	111.6	134.3	148.8
<b>TOTAL</b>	<b>2012.2</b>	<b>2324.6</b>	<b>2618.7</b>	<b>3042.1</b>	<b>3434.4</b>

\* Bank of Israel 1962, p. 220.



panded at a rapid rate. Industries like mining and quarrying, wood, metal and non-metallic rely heavily, for expansion, on the construction activities in the building sector. Finally, branches which supplied foreign markets achieved high rates of expansion; unless the foreign sector was hurt by some adverse foreign developments which caused a drop in expansion rate.

In 1958, most industrial branches expanded their output by 10-15%<sup>(7)</sup>. The output of the food industry expanded by 18.4% in 1958, by 8% in 1959 and 10.7% in 1962. Hence, on the whole we can say that the food industry expanded at something like 12% per annum.

As to textile and clothing industry, the expansion rate was 14.4% in 1962 against 15.5% in each of the preceding two years<sup>(8)</sup>. In recent years, development efforts mainly concentrated on the textile industry, especially cotton spinning. In 1965, a rapid growth rate was achieved in the synthetic yarns and fabrics and clothing. A great part of this expansion was made at the expense of competing fabrics made of cotton or wool. As to the main short comings of this sector, it is neither under-exploitation of productive capacity nor technological backwardness; since the equipments used are for the most part ultra modern. However, there are two major problems: first, the faulty structure of this sector which does not allow for specialization and leads to splitting up production among the various operating mills and the excessively small production units; second, is the tremendous size of the industry as a whole in relation to the actual markets available to it.

Until 1960, the equipment and machinery branch faced by competition from imports was at a disadvantage relative to other branches in the industry. However machinery is not produced for stock even if the quality is up to standard and price is competitive, there must be orders for its production. Hence, the problem here was a marketing problem. Nevertheless, the machinery industry which mainly produces pump-

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(7) *Ibid.* p. 117.

(8) *Bank of Israel*, 1962, p. 248.

ing and compressor equipments, motors, transformers, batteries and communication equipments; occupy a strategic position in Israel's industrial structure, i. e. they are the ones responsible for the manufacture and maintenance of capital goods not only for the industrial sector itself, but for the whole economy. Average expansion rate of this branch has been 17% between 1958/61<sup>(9)</sup>. However, from 1962 onwards, there has been a drop in the rate. An interesting fact to note is that before the devaluation in 1962, the effective rate of exchange for imported equipments was considerably low, and an increase in the relative price of this item after devaluation made them believe that it would result in the substitution of locally produced for imported products. But facts revealed that the domestic market was not large enough to permit production of machinery at competitive prices unless a substantial part of the output was exported. Thus, the change in relative prices in the domestic market was insufficient, a change to act as an incentive for substituting locally produced items for imports.

### III. RAW MATERIALS :

Agriculture production produced locally constitutes a great part of the input in the food industry. The raw materials supplied to industry from the agricultural sector increased by 13.4% at current prices in 1958 over 1957<sup>(10)</sup>. In general, industry serves as an outlet for the surplus agricultural products which cannot be marketed at higher prices either locally or abroad. However, in cases where the output of a subsidiary branch exceeds the input from agriculture, the latter would be complemented by imports of agricultural raw products from abroad.

The composition of inputs, including the import component of the industrial branch as a whole, has been marked over the last years with stagnation i. e. not showing any significant change<sup>(11)</sup>. This indicates the fact that there has been no

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(9) *Ibid.* p. 251.

(10) *Bank of Israel*, (1958) p. 120.

(11) *Bank of Israel*, (1962) p. 223.

**TABLE III**  
*EMPLOYMENT BY ECONOMIC SECTOR\**  
 THOUSANDS

	1958	1959	1960	1961	1962	1963	1964	1965	1966
Industry Crafts Mines and Quarries	146.7	153.7	162.9	177.8	194.7	203.0	216.3	222.9	228.4
Agriculture, Forestry and Fishing	115.1	119.7	120.0	121.6	120.1	112.6	109.9	114.4	108.7
Total	655.1	680.0	701.9	735.3	777.2	809.0	854.1	879.2	878.2
In Percentages									
Industry Crafts Mines and Quarries	22.4	22.6	23.2	24.2	25.0	25.0	25.4	25.4	26.1
Agriculture, Forestry and Fishing	17.6	17.6	17.3	16.5	15.5	14.0	12.9	13.0	12.4

\* Statistical Abstract 1967, p. 268, and Bank of Israel 1962, p. 148.

sizable replacement of imported raw materials, despite the considerable measures taken in that respect.

Since 1958, the import component has ranged around 40%. Despite the establishment of import substituting enterprises in various branches, most have been insignificant to exert any real effect. On the other hand, the percentage of industrial output exported requiring high import component has increased during the period 1958/62. As to electricity, it is supplied by the Israel Electric Corporation which in its policy in 1959 cheapened the price of electricity for branches requiring large quantities of electrical current<sup>(12)</sup>.

#### IV. EMPLOYMENT IN INDUSTRY & ITS SHARE IN NATIONAL INCOME

Table III shows that between the period 1957 to 1966, agriculture produced an average around 11% of national income, whereas industry in the same period produced an average of about 25%. Also Table III indicates that the share of agriculture in national income has been declining and in the year 1966, it reached 8%, whereas that of industry has a more stable contribution mainly fluctuating between 24-25%, except for the year 1959, whereby it was 23%, a drastic drop from 30% in 1958. However, to get a real picture of each branch, contribution to national income should be regarded in respect with the % of employed in each specific branch. Table III provides us with the necessary information concerning employment by sectors. The percentage of employment in industry has increased from 23.2% in 1960 to 26.1% in 1966; whereas employment in agriculture has declined from 17.3% in 1960 to 12.4% in 1966.

If we take the period between 1960 to 1966 in all the years, we notice that the contribution of agriculture to national income was less than the percentage engaged in it. In 1960, 17.3% of the employed produced 12%; in 1966, 12.4% produced 8%. In other words, the decline in the contribution of agricul-

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(12) *Bank of Israel*, (1959) p. 155.

ture to national income is accompanied by a decline in the percentage of manpower engaged in it.

Regarding industry, the number of people engaged in this sector has been increased over the past 10 years. As an indication, in 1960 23.2% of the employed were in industry, whereas in 1966, the rate increased to 26.1%. It is important to note that the percentage of employed in industry contributes nearly an equal percentage to national income and this could be traced through comparing table III.

In 1959, the number of people working in industry expanded by 8.5% which was spread over most branches though the absolute increment was considerably large in the metals, paper and printing, textile and clothing branches<sup>(13)</sup>. In 1960, the increase in employment in industry was 6%. In 1962, it was 9.5%, whereby one third of this expansion was absorbed by the metal branch, the second third by the food branch and the last third was distributed among the remaining branches<sup>(14)</sup>. In 1965, the growth of industrial employment dropped down to 1% increase as compared with an average of 8% in 1960/64<sup>(15)</sup>. This moderate rise was accompanied by a gain of about 8% in labor productivity. This development can be ascribed in part to the investment in labor-saving equipment made in previous years where a labor shortage prevailed in the economy.

As to wages in industry, the total wage bill was in million Israeli pounds 466 in 1960, 574 in 1961, 707 in 1962, 857 in 1963, 1025 in 1964 and 1154 in 1965<sup>(16)</sup>. Relatively speaking wages accruing to industry in 1960 were 27.1% of the total 28.1% in 1961, 28.4% in 1962 and 29.1 % in 1963.

## V. INVESTMENT IN INDUSTRY

Table V indicates the amount of investment carried out in industry. In 1958, gross investment in industry increased by

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(13) *Ibid.* p. 86.

(14) *Bank of Israel*, (1962) p. 149.

(15) *Bank of Israel*, (1965) p. 203.

(16) *Ibid.* p. 217.

26% which was mainly due to deliberate government policy which aimed at expanding industrial production capacity. Consequently, large amounts of long term loans in foreign and local currencies were granted on easy terms. The government's share in financing mining reached 95% in 1958 and 37% in the remaining branches<sup>(17)</sup>. In 1958, industrial enterprises were able to invest large sums from their own resources. The share of self financing within gross industrial investment rose from IL 78 million in 1957 to IL 98 million in 1958, i. e. by 24%. In 1959, gross investment in industry increased by 24% also. Government financing increased moderately from IL 71 million in 1958 to IL 74 million in 1959; and its total share in industrial investment declined from 43.3% in 1958 to 35.2% in 1959, whereas private financing expanded by 42.4% in the same period mainly due to the increase in profitability<sup>(18)</sup>.

In 1960, gross investment in industry increased only by 7%; the main cause of which was not shortages of funds, but the unavailability of worthwhile projects suited to objectives of the government's investment policy<sup>(19)</sup>. In 1963, 40% of the industrial investment came from the government which was distributed along sectors according to the population dispersal policy<sup>(20)</sup>. In the same year, 40 new enterprises were set up in 30 development towns which consumed half the loans extended by government during the year<sup>(21)</sup>. Finally, in 1964, industrial investment expanded by 8% against 17% in 1963 whereby the slower rate reflected the absolute decrease in the mining and quarrying branch<sup>(22)</sup>. In general, investment in other branches increased by 12%.

Table VI shows investment by sectors within the period 1962-1966. Public funds financed 30% of the total industrial investment in 1964. Government financed 47% of the total

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(17) *Bank of Israel*, (1958) p. 123.

(18) *Bank of Israel*, (1959) p. 155.

(19) *Bank of Israel*, (1960) p. 157.

(20) *Bank of Israel*, (1963) p. 238.

(21) *Ibid.* p. 239.

(22) *Bank of Israel*, (1964) p. 275.

**TABLE V**  
**GROSS INVESTMENT IN INDUSTRY\***  
*(in IL Million)*

1957	1958	1959	1960	1961	1962	1963	1964
124	157	205	226	262	364	400	470

**TABLE VI**  
**DISTRIBUTION OF INVESTMENT IN INDUSTRY BY BRANCH\*\***  
*(Percentages)*

	1962	1963	1964	1965	1966
Mining & Quarrying	36	22	18	15	13
Food	15	15	17	18	15
Textile & Clothing	17	17	16	14	15
Wood & Wood Products	3	2	3	4	5
Paper, Printing & Publishing	2	2	3	6	9
Rubber & Plastics	2	3	4	4	4
Chemicals & Oil Refining	8	15	12	9	6
Glass, Ceramics, Cement	2	9	9	7	9
Machinery & Electrical Equipment	2	4	7	5	6
Transport Equipment	11	5	4	7	6
Metal & Metal Products	2	6	7	11	12

\* Compiled from Bank of Israel 1958/64.

\*\* Bank of Israel 1964 & 1966.

**TABLE VII**  
**INDUSTRIAL OUTPUT & EXPORTS IN PERCENTAGES\***

	<i>Increase Over Preceding Year</i>						
	1959	1960	1961	1962	1963	1964	1965
Exports (\$ FOB)	43.7	22.1	19.4	19.6	21.1	13.5	11.6
Real Output	15.4	11.6	16.7	13.4	15.5	15.0	10.0

\* *Bank of Israel*, (1965) p. 265.

capital invested in industrial firms in development areas, against 32% in the case of enterprises located elsewhere<sup>(23)</sup>.

Regarding real capital stock, it was in general expanding on an average of 10-13% per annum during 1958/64. The capital market has not assumed an important role in direct financing in the industrial sector. Private investment was mainly governed by the intensity of demand; and the Israeli government ventured in investment that were essential from the viewpoint of improving the balance of payment, increasing employment for dispersing the population.

## VI. INDUSTRIAL OUTPUT AND EXPORTS

In general, on an average basis as indicated in Table VII, we notice an 11-13% increase in industrial production per annum. In most cases, the rate of expansion is determined by the scale of domestic or foreign market. Sometimes, however, the determining would be the physical output capacity or the quantity of raw available.

Specifically speaking, the main reason for a high rate of output expansion in 1959 was due to the increase in industrial export during that year. The value of these exports and the intermediate products used in their manufacture accounted to 43.7% of the total increase in the value of industrial production. An interesting fact to mention is that the extreme reliance of industry on export i. e. on foreign markets for the growth of output, where competition is usually intense, demanded greater efforts of organization and management than production for the protected local market<sup>(24)</sup>. Such circumstances have caused an alteration in the structure of the local market. Hence, this brought forth a general trend of industrial policy which was the strengthening of the tendency towards cartelization, though this did not always find immediate expression in the registration of cartels in accordance with the

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(23) *Ibid.* p. 277.

(24) *Bank of Israel*, (1960) p. 142.



«Restrictive Trade Practices Law»<sup>(25)</sup>. However, groups of producers in many cases conducted negotiations to keep price increases in check and to organize cartels for purposes of more efficiency.

In contrast to 1959, the 15.5% increase in industrial output in 1963 can be attributed primarily to the greater supply of production factors available to industry, but nevertheless, the rise in productivity was also an important factor<sup>(26)</sup>.

Finally, in 1965, the 10% expansion which was lower than in any of the eight preceding years was mainly due to the state of domestic demand and in the quantities offered for export at the existing exchange rate<sup>(27)</sup>. The weakening of aggregate domestic demand reflected in both; lower percentage rise in consumption and a drop in investment affected most industries. At the same time, supply limitations appeared in certain parts of the food industry. Moreover, limited productive capacity effected several items which account for a part of the industrial output but were a nominal share of its exports.

The percentage expansion of industrial exports including diamonds relative to the previous year was 45.2% in 1959, 29.8% in 1960, 16.7% in 1961 and 19.6% in 1962<sup>(28)</sup>. As is indicated in Table VIII, the average increase in the years 1958/61 was 28.4%. Total value of industrial exports declined slightly in 1958 reaching to \$ at F.O.B. prices 82.2 million<sup>(29)</sup>. The main reason was the partial closing of the Turkish markets to Israel goods.

In Israel, many producers especially the smaller ones are unwilling to venture into export business because of fear from risk taking. To them, the prospects of penetrating foreign markets are not only determined by the level of direct production costs, but also on the expenditure on export promotion. In 1959, total industrial exports increased tremendously amounting to

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(25) *Bank of Israel*, (1962) p. 217.

(26) *Bank of Israel*, (1963) p. 227.

(27) *Bank of Israel*, (1965) p. 265.

(28) *Bank of Israel*, (1962) p. 224.

(29) *Bank of Israel*, (1958) p. 125.

**TABLE VIII**  
**INDUSTRIAL EXPORTS\* AT CURRENT F.O.B. PRICES**

	Exports in 1965 \$ 000	Average 1958-61	Percent increase or decrease			
			1962	1963	1964	1965
Basic Metals & Pipes	6059	52.1	62.5	24.1	— 0.7	74.6
Machinery & Electrical Equipment	2250	55.2	52.5	— 1.4	—22.5	47.0
Mining & Quarrying	25161	40.2	— 9.3	37.5	63.9	34.4
Glass, Veramics, Cement	5331	20.6	3.5	18.8	— 2.8	31.5
Chemicals	22569	60.4	— 2.5	18.6	15.5	30.5
Metal Products	12996	128.1	24.0	54.6	—43.6	23.1
Playwood	8057	13.7	24.1	6.8	17.6	13.2
Clothing	10213	39.6	8.0	—12.0	11.2	8.7
Oil Refining	10188	—	86.3	110.5	21.8	6.5
Tires	8816	13.8	17.8	—11.0	— 4.1	4.6
Foodstuffs other than citrus	6112	26.2	2.7	14.9	15.0	4.4
Citrus Products	18618	12.3	24.8	31.6	38.4	2.9
Leather & Footwear	780	— 2.3	95.6	— 8.5	32.6	0.9
Textiles, excluding clothing	30263	48.4	25.1	15.3	28.2	— 0.4
Paper, printing, publishing	4672	39.6	8.2	—12.0	11.2	— 9.2
Rubber & Plastics	1504	42.9	—27.2	102.7	— 6.7	—18.4
Transport Equipment	3466	— 8.1	60.3	2.9	51.1	—19.1
Household Equipment	4717	26.0	—18.6	1.3	33.4	—25.9
Industrial Exports other than diamonds	181854	31.5	13.3	19.4	13.5	11.6
Flamonds	181796	23.9	29.9	23.4	13.4	11.5
Total Industrial Export	313650	28.4	19.6	21.1	13.5	11.6

\* *Bank of Israel*, (1965) p. 277.

\$ 117 million. The main reason for this expansion was the maturing of agricultural and industrial investments made in previous years, the larger supplies of locally produced raw materials, better export organization allowing for lower costs and government policy in providing financial aid to export industries<sup>(30)</sup>.

As to 1960, although there was an increment of export over 1959, the question of the actual cost of these exports to the economy remains undecided. There are reasons to assume that at least part of the industrial increase was only made possible by the raising of prices at the home market<sup>(31)</sup>. Consequently, while the increasing orientation towards more exports is a positive measure it is however based upon the exploitation of the support provided by the local market.

Regarding diamond exports, 53.6% of the total increase in 1962 was accounted for by diamonds with which Israel reached second place after Belgium<sup>(32)</sup>. After diamonds, the largest absolute increase in industrial exports occurred in yarns, followed by metal goods then foodstuffs. Going back to table VIII, we notice that in 1965, the largest item in industrial exports was diamonds accounting for \$ 132 million followed by textiles excluding clothing, then by mining and quarrying and chemicals. However, in 1965, export expansion slowed down showing only 11.6% increase, a trend which had already started in 1964<sup>(33)</sup>.

## VII. CONCLUSION

Israel's economy offers only few obvious advantages as regards export. The expansion of exports continues to be largely dependent on the volume of the home market. Neither from the aspect of raw materials nor from that of factor cost does this country possess comparative advantage over others. Apart

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(30) *Bank of Israel*, (1959) p. 159.

(31) *Bank of Israel*, (1960) p. 164.

(32) *Bank of Israel*, (1962) p. 224.

(33) *Bank of Israel*, (1965) p. 274.

from the minerals of the Dead Sea, Israel does not possess any rich sources of raw materials that could endow it with natural monopolies. Though the wage level in Israel is lower than in most industrial countries, the average output per employee is also low.

It is a fact that in a young economy like Israel, the protection of a very large percentage of local production against foreign competition is necessary. However, to provide incentive for greater home efficiency, local goods were slightly exposed to foreign competition. In most cases, the main reason behind protection was to grant priority to enterprises in development areas. This, in some cases, resulted in protection of enterprises which were not entitled to protection according to the mentioned criteria. Furthermore, to encourage investment, the government has created an «Investment Authority» to provide help for small size foreign investors. The Government apart from initiating projects of its own in setting up government companies for the erection of industrial undertakings, has in many cases taken upon itself a considerable part of the risk involved in export promoting investments.

To conclude, today in Israel, most of the imported industrial products cannot, in fact, be manufactured locally for technological reasons as well as for cost considerations. The basic problem in the existing industries in Israel is structural. In addition to the high degree of concentration, most of the industrial enterprises are much smaller than similar concerns in other industrial countries. The small scale of output resulting in higher manufacturing costs, as well as the low degree of specialization puts Israel in a disadvantage regarding competition.

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## **FOREIGN TRADE OF ISRAEL**

*By SAAD SALAM*

### **I. INTRODUCTION**

One cannot deny that the Israeli Economy has made some great achievements through hard work and struggle for survival since it was established in 1948. These achievements have encompassed many sectors in the economy including the foreign commodity trade sector. Nevertheless one should not be influenced by the ideas of many Zionist-biased Western writers who kept preaching that Israel is an island in a sea of underdevelopment. Nor should one follow the weak reactions of some Arab pessemists who have exaggerated the superiority of the enemy's economy. An objective reader should look into the direct and indirect causes behind this high rate of economic growth and into the immense aid Israel has received and is still getting from many great economic powers.

Israel being isolated from her neighbors had to depend mainly on its foreign secotr. This may explain the concentration of Israel's trade with its supporters The United States, Great Britain and West Germany from about 75% of Israel's foreign trade both ways. Moreover the continuous deficit in the past two decades has been financed by the above mentioned countries.

It is important to make it clear from the start that this paper is mainly dependent on Israeli sources and on the writings of Jewish economists. It is therefore, essential for the reader not to take the views and figures mentioned in this paper at their face value. Many underdeveloped countries usually try to hide their weak points through the annual presentation of their reports. Israel has many purposes in showing exaggerated achievements in order to encourage new immigrants and to attract foreign investments.

The purpose of this paper is to show to what extent are these achievements true in the foreign trade sector. It starts by giving an account of the main exports and imports in Israel, then gives the results of the trade balance and its characteristics in the past. The third part deals with the policies that the Government has been implementing in order to curtail imports and encourage exports. I would finally attempt to come out with few conclusions that would throw light on Israel's future policies.

## **II EXPORTS AND IMPORTS**

### **A. EXPORTS:**

The Israel exports can be divided into two main categories: Industrial and agricultural exports. The industrial exports alone constitute about 80% of total exports as shown from the figures taken in 1966<sup>(1)</sup>. These exports are distributed amongst few items where diamonds constitute 50% of total industrial exports. On the other hand the agricultural exports constitute 20% of total exports and is fully dependent on one item which is citrus fruits. From these few remarks we can come out with a very significant fact and that is the dependence of the Israeli economy on two items for its exports.

The main export items are: Polished diamonds, fresh citrus fruit, textiles, food stuffs chemicals and mining. A short account of the development of the important items in the past decade and their main characteristics, would give a clear idea as to the composition of exports.

#### **1. Polished Diamonds :**

Starting 1958, the demand for diamonds declined and as a result contracted the value of total exports. In 1959 the dia-

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(1) Table I — Exports by Selected Groups of Commodities, Statistical Abstract of Israel, p. 221.



mond exports rose by 40% due to the economic recovery in the United States which in turn accelerated demand for the industry. On the supply side, the diamond industry was expanding and was able to meet the high level of demand. 1960 was a good year for the industry where exports rose by a further 25% due to expansion in capacity, a large allocation in the supply of rough diamonds from the International syndicate (mainly dominated by Jews) and to a further increase in demand on the international market<sup>(2)</sup>.

In 1963 diamond exports accounted to 17% of the total increase in exports, mainly for the reasons mentioned above. One danger faced the main industry in Israel in this year and that was the rising wage level that would affect the export structure of the industry<sup>(3)</sup>.

The diamond industry has a high import component. If we look at the figures of two years 1962 and 1966 we come up with the following results: In 1962 the import of rough diamonds was \$72.4 mn. while exports of polished diamonds amounted to \$89.3 mn. In 1966 imports of rough diamonds amounted to \$138.8 mn. while exports of polished diamonds came up to \$187.5 mn.<sup>(4)</sup> A simple arithmetical calculation would show us that the import component of the diamond industry was 81% in 1962 and 74% in 1966. This high percentage can only mean one thing, that Israel whose diamond industry forms 40% of total exports has very little cumulative effect on the whole economy in 1966 the diamond industry' raised its exports by \$30 mn. from \$160 mn. in 1965 to \$190 mn.<sup>(5)</sup>.

Sales were buoyant in the United States in 1966 while Europe and the Far East demanded the medium quality. High labour cost in Belgium and the U.S. has provided for a further expansion in the industry. In 1967, the diamond industry sho-

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(2) The Bank of Israel Annual Report 1960, p. 34.

(3) The Economist Intelligence Unit (E.I.V.) 1964, p. 7.

(4) Tables I & IV.

(5) Economist Intelligence Unit, *Op. Cit.*, 1967, p. 9.

wed one of its worse years, sales rose by 1.7% only due to the decline in demand in foreign markets<sup>(6)</sup>.

## 2. Citrus Fruits :

Citrus products were not introduced by the Israeli State in 1945. In the pre-state era, the Palestinian growers were known to be the most up to date citrus growers in the area, owing modern citrus, groves. When the Israelis took over in 1948 they took all these farms and added very few since. To talk in figures citrus exports were the main exports in 1949 coming up to \$ 18.0 mn. out of total exports of \$ 28.4 mn. The second export item to follow was polished diamonds amounting to only \$ 5 mn. in 1949. If we look at the 1966 figures we see that citrus amounted to \$ 74.7 mn. while polished diamonds amounted to \$189.5<sup>(7)</sup>. If we were to compare the development of both items, we would have seen the great difference. This is due to many reasons:—

- (a) The Israeli citrus growers could not expand production greatly because the suitable land for its plantation was limited.
- (b) Before 1948, the Palestinian grower was using the best techniques, yielding high productivity. Technological improvements introduced later did not raise production substantially.
- (c) The dependence of the industry on weather conditions.
- (d) The insufficiency of market outlets especially that EEC countries impose high duties on citrus.

On the other hand the diamond industry had many advantages that would explain the difference in development in both items:—

- (a) The Jews in Palestine dominated the industry and remained the owners after the establishment of the State;

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(6) Economist Intelligence Unit, *Ibid.* 1968, p. 6.

(7) Table I.

- (b) Best techniques were introduced recently to the industry increasing production substantially;
- (c) The industry does not depend on weather conditions as the case is in citrus, but on sources of supply of rough diamonds and this has been dominated by world Jewery for centuries;
- (d) The International Syndicate provides the Israeli diamond industry with many market outlets;
- (e) Unlike the citrus industry, labour in diamonds had lower wages than the international market while the labour in citrus was having higher wages in Israel.

Income from citrus was \$ 49 mn. in 1958/59 remaining at the previous season's level. The decline in world prices as compared with higher prices in the previous season 1957/58 was the reason behind it. Citrus remained as Israel's major agricultural export although its percentage was declining because of the introduction of new items such as eggs. In 1954 its share was 98% of all agricultural exports, while it became 85% in 1959<sup>(8)</sup>. Citrus prices fell in the international market in 1960 due to: an increased supply in the European market on one hand and the competition of other fruits. Yet 1961 was an alarming year for Israel, production contracted sharply to \$ 41 mn. due to the smaller yield per dunam due to aging of groves. Although prices started rising, income fell by 13% and the share of citrus in agricultural production fell from 80% in 1959 to 64% in 1961<sup>(9)</sup>.

In 1962 the Israeli Government was relieved because the volume of production rose by 27% due to young plantations reaching full-bearing age; 1962 was a record year reaching \$ 74.9 mn. An increase of 50% over 1961. This was a result of two factors: world prices rose by 15% and Israel production volume rose by 9.6%. The increase was due to new groves, abnormally favourable weather and bad crops in other producing countries<sup>(10)</sup>.

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(8) Bank of Israel Annual Report 1959, p. 34.

(9) Bank of Israel Annual Report 1961, p. 51.

(10) Bank of Israel Annual Report 1963, p. 47

The dependence of the citrus industry on weather conditions in Israel and outside had become apparent by now. In 1964 production showed a drop of 33% due to bad crop (bad weather inside) and low market price (good weather outside). The Israeli government planned to increase the level of production by 33% in the 1965/70 plan. Exports to West Germany were sold in auction under cost levels and the overall effect on total exports was 3%<sup>(11)</sup>.

The 1964/65 season was more promising since production shot up to \$ 74.7 mn. again. Although Spain (the main competitor) witnessed a bad crop, citrus prices showed a drop in general while costs of production increased. If certain producers such as Morocco, Tunisia and Algeria would join the E.E.C., the Israeli citrus production would be doomed.

Labour troubles domestically and falling prices externally together with bad weather delayed exports in 1966/67 season. Citrus growers have been asking the Government for more benefits since costs of production are rising and the world market was a bumper market, topped by the E.E.C. discriminatory measures. Citrus growers succeeded in their pressure and got a share of export benefits. £ 16.8 mn. were to be distributed. Exporters would receive a 5% premium of their foreign earnings and £2 mn. were earmarked for marketing and promotion. Luckily for Israel, all shipments were completed before the June War. A record of 17.4 mn. cases were exported, the value of sales being \$ 90 mn. compared with \$ 77 mn. last year<sup>(12)</sup>. This jump was due to a decline in production in Spain and North Africa, while East Europe increased its purchases. Future prospects for citrus is gloomy because of anticipated increase in world supply.

### 3. Textiles

Textile is the third large item in the Israeli exports jumping from \$ 0,36 mn. in 1949 to \$ 45 mn. in 1966. In 1960 textile

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(11) *Economist Intelligence Unit*, 1964, p. 6.

(12) *Economist Intelligence Unit*, 1967, p. 11.

production mainly in yarn and clothing increased by 38% over the previous year. This was due to the maturity of investments in this field thus increasing production capacity, the penetration of new market in Asia and Africa and the consolidation of existing markets in Europe and the United States.

This export industry has been subsidized by the Government since the State was established as is the case with all other exports. In 1961 textile production increased by 50% but the lack of sufficient markets left piles of stocks. This problem forced the government to find all ways and means to help the loosing industry in 1962. Production in 1962 amounted to \$ 30 mn. and remained constant at \$31 mn. in 1963<sup>(13)</sup>. This was due to marketing difficulties and heavy domestic demand. The devaluation did not help this industry because its costs of production rose proportionately. 1967 witnessed a large increase in textile exports reaching a record level of \$ 45 mn. Textile manufacturers and other exporters preferred to sell domestically because they profit from their domestic sales only while they just manage to cover their marginal costs in the world markets<sup>(14)</sup>.

## B. IMPORTS

Israel as the case is in most small countries lacking natural resources would depend heavily on imports of goods of all kinds. There is no reason to criticize the heavy imports in the Israeli economy if we look at the economic destination of these imports in Table VI. We can observe that since 1958 imports of consumers goods remained at an average of 10% of total imports uptil 1966. If we compare these figures with any country in the Middle East, we can see the great difference. Imports figures in the Lebanese Republic shows that consumer goods formed more than 55% of total imports in 1964. On the other hand Jordanian imports of consumer goods in 1964 were

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(13) The Bank of Israel Annual Report, *Op. Cit.*, 1963, p. 35.

(14) *The Economist Intelligence Unit*, 1967, p. 12.

60% of total imports<sup>(15)</sup>. The imports of investment goods to Israel averaged at 20% from 1958-1966. The imports of investment goods to Lebanon were at 15% in 1964. Finally the imports of production inputs to Israel were 70% of total imports from 1955-1966. In Lebanon these imports were 30% of total imports in 1964 and that by itself explains the large percentage in the import of consumer goods. To recollect we find that Israel's import trend has been stable in the last decade and moreover it was well-distributed.

Another characteristic worth noticing in the imports of Israel is the import component of final uses. See table VII. The most interesting fact is that the import component of exports was 56.2% in 1957 and remained at a high level of 44% in 1964. This fact reflects the real composition of the Israeli economy and its heavy dependence on imports to be processed exported afterwards. This would explain the fact mentioned above of the high percentage of input imports mentioned in Table VI.

The main types of imports are crude oil, machinery, rough diamonds, transport equipment, chemicals and iron plates. We see from the above mentioned items that they are all non-consumer goods. As shown in Table VI consumer goods amounted only to 10% of total imports<sup>(16)</sup>. In 1958, more custom duties were imposed to prevent an expansion in imports over and above foreign exchange abilities. There was a substantial decline in the imports of food stuffs in 1959 mainly because of a decline in the U. S. food surplus. The fall in imports in 1958-59 was mainly due to fall in import prices and not volume. Imports increased in 1960 due to purchase of ships to be used afterwards for export transport. Israel purchased aircrafts in 1961 up to \$62 m. which would not appear as a recurring yearly item. In 1962 the main increase was in the import of raw materials and rough diamonds with a little change in consumer goods. 1963 witnessed two main changes; consumer goods rose by 30% over previous year due to the new policy of import

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(15) *The Economist Intelligence Unit*, 1965, p. 15.

(16) *The Bank of Israel Annual Reports* (1958-66).

liberalization; and secondly an increase of 20% in fuel imports for reprocessing as exports<sup>(17)</sup>.

In 1964, total imports rose by 25% over 1963 due to the new policy of import liberalization and further to import of transport equipment and armaments. The Government was ready to suppress consumers' durable imports only because other imports were considered to be essential for the economy. Import of cars was to be curtailed in order to protect local industry, improve the balance of trade and stop congestion on roads. An 80% ad-valorem duty (previously 35% was introduced<sup>(18)</sup>).

The Government was optimistic in 1965 that imports would rise lightly because special imports in 1964 like planes and ships are non-recurrent; many industries have accumulated large stocks especially in the building and diamond industries; imports of investment goods were not supposed to rise much because of cuts in government expenditure, and finally import of consumer goods was expected to rise at 10% rate only<sup>(19)</sup>.

Due to the drought in 1966, imports of food stuffs were necessary especially for wheat and barley. Imports of rough diamonds increased more rapidly than the export of polished diamonds which meant an increase in the capacity of production of the diamond industry in the future.

### III. THE BALANCE OF TRADE

Israel had a deficit on its balance of trade since it was established in 1948. If we look at table VII we can see the trend of the import surplus. In 1960 the trade gap amounted to \$2844 mn. due to a rise of \$90 mn. in exports and a \$65 mn. in imports. Israel resorted to capital imports to finance this gap, mainly from West Germany's restitution payments and

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(17) *Bank of Israel Annual Report*, 1963, p. 72.

(18) *Economist Intelligence Unit*, 1964, p. 5.

(19) *Economist Intelligence Unit*, 1965, p. 11.

private investment. I would not go into much details in this paper and describe the means by which Israel was able to meet its annual deficit. This is left to another paper on the balance of payments of Israel. To come back to 1960, exports rose by 23% and industrial exports showed the largest increase<sup>(20)</sup>. Growth of exports can be attributed to:-

1. **Supply Side** maturing of investments and expansion in output capacity of specialized export-oriented industries i. e., textile. Better organization and wider market outlets were further causes for the expansion in exports.
2. **Demand Side** internal demand rose because of the restitution payments inflowing from Germany, reflected in increased marginal propensity to import in Israel, since the relaxation of imports. Export prices rose in foreign markets while prices of imports rose less. Thus Israel's terms of trade continued to deteriorate causing a loss of \$16 mn. to the economy. See table IX. If we look at the trend of the terms of trade from 1955-66 we can see that the increase was very little and the Israeli exaggeration of the worsening of terms of trade was great.

In 1963, the trade deficit was 11% smaller than 1962<sup>(21)</sup>. Exports rose by 26% while imports grew by 4% only. Exports in 1963 boosted by 53% in citrus due to an excellent harvest and a favourable market. This reflects again the weakness of the Israeli economy and its dependence on weather conditions. Exports of diamonds on the other hand were up by 29%, while exports of manufactured goods rose by 22%. These results were great and 1963 was to be remembered as a memorable trade year since it had never recurred. This non-recurrence could be explained:-

1. Wages were over rising, affecting export structure of the diamond industry in particular.
2. Agricultural output is sensitive to wage increase particularly when the international market price is falling due to a

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(20) *Bank of Israel Annual Report*, 1960, p. 41.

(21) *Bank of Israel Annual Report*, 1963, p. 51.



better Mediterranean harvest. Import of investment goods were 4% below 1962 due to a drop in the import of transport equipment and tractors while 1964 was the worst year even when the trade gap rose to \$408.4 m. a 40% rise over 1963. The main rise in imports came from investment goods mainly in transport equipment. In the beginning of 1965, imports fell 5% less than 1964 and exports was attributed to lower imports of investment goods and the incoming of consumer goods was delayed. Citrus crop rose greatly and industrial exports to a lesser extent mainly in diamond cutting.

At the end of December 1965, reserves were \$476.8 m. while at the end of March they were \$543.4 m. as a result of private and official restitution payments and the Jewish Agency transfers of \$80 m.<sup>(22)</sup> The fact that the reparation payments were ending and foreign investment declining made 1966 anticipated reserves increases to be very little. If the Government wanted to go on with its import liberalization policy, it had to boost exports. All this led to rumors on the devaluation of the Israeli livre. The Government was not expected to do so, but would better resort to subsidizing export industries by tax exceptions, cheaper credit and advertising aid, 1965 proved to be a better year and the deficit fell by \$46 m. due to an increase by 25% in citrus yields and 13% in industrial exports. Industrial exports became dominant at 80% of total exports in 1965 while it was only 66% in 1956. Main increases were in mining products, paper products, furniture and chemicals.

In 1967, the June exports were down to 28 mn from \$39 mn last year due to the war. Trade deficit which was estimated at \$410 m. would be expected to rise to \$500 m. because of urgent strategic purchases and delays in export deliveries. Although many communist countries broke off diplomatic relations, trade is not expected to be effected<sup>(23)</sup>. Moreover the

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(22) *Economist Intelligence Unit*, 1965, p. 12.

(23) *Economist Intelligence Unit*, 1967, p. 9.

Canal closure caused world movement of many goods to be disrupted and exports of Israel to East Africa and Europe increased.

With its large though declining trade deficit, Israel is still heavily dependent on foreign aid. Grants have come mainly from the United Jewish Appeal, the U. S. government, West Germany reparations and personal indemnities. The principal loans has been coming from the Export-Import Bank, the bond drive, the U. S. government and various European sources.

The last payment under the 1952 Israel-West Germany reparation agreement ended in April 1965. Israel received \$850 mn. (600 mn in development goods and services and probably \$250 mi in stratgic goods. A new agreement of \$40 mn was concluded in 1966).

The latest trade figures show that the trade gap has fallen substantially in the first ten month of 1967 because of the drop in imports from \$686 mn to 591 mn. After the war exports picked up in December to \$50 mn. a rise of 22% over last year. Industrial exports rose despite the fall in diamonds sale. Agricultural exports were not effected since they were completed before the June war<sup>(24)</sup>.

We can sum up at this stage and suggest that the deficiency in the trade balance is not mainly from the imports as many economists claim but from the mal-export composition. As we have shown before 90% of total imports goes to imports of production and investment goods while only 10% goes to consumer goods. On the other hand exports depend heavily on two items, diamonds and citrus. The export of polished diamond which froms 40% of total export has an 80% import componant and the citrus exports forming 20% of total exports put the economy at the mercy of international prices, weather conditions and marketing problems. Thus what is dangerous in the Israeli balance of trade is the export sector and not the import sector.

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(24) *The Economist Intelligence Unit*, 1968, p. 6.

(25) *Bank of Israel Annual Report*, 1968, p. 36.

Another angle worth discussing is trade by Area and by countries as is shown in tables III, IV, IX and X. If we look at table III we can see that Europe has been the main market for Israeli exports remaining at a constant share of 60-62% of total exports. This share is almost equally divided by the two trade groups the E. E. C. and E. F. T. A. countries. Eastern Europe has a smaller percentage of 5% while both the U. S. and Canada have a share of 16% and have equal share for both Asia and Africa.

An important characteristic of the trade geographical distribution of Israel is that the distribution of imports is almost the same as that of exports with Europe in the lead where the E. E. C. and E. F. T. A. have almost equal shares but the U. S. and Canada have a greater share.

Britain and the U. S. remained the biggest customers. 65% of Industrial exports went to 10 countries. 90% of agricultural exports went to 10 countries where Britain accounted to 35% of the total. Diamond exports went to 8 countries only, where the U.S. had 40%<sup>(25)</sup>. In 1959 Germany and Switzerland became third and fourth in trade transactions with Israel after the shrinkage in the shares of Finland and Turkey. The big customers are the biggest buyers of diamonds and citrus i. e., Britain and Germany. The United Kingdom, Turkey, the United States, Germany and Yugoslavia are the largest purchasers of Israel's industrial exports. Exports to Africa, although difficult because of Arab boycott rose from \$4.5 mn. in 1959, to about \$20 mn. in 1966 constituting mainly of industrial products.

Following the trend of free trade in 1960, direct link with countries declined. Only the Eastern Block resorted to binding agreements. Exports under agreements accounted to only 14% of total exports in 1966 as compared with 30% in 1956-58. A marked decline took place with countries linked in payments agreements in 1961 i. e., Argentine, Iceland, Norway and the Eastern Block. In 1964, Britain replaced the U. S. as Israel's main export market. France becoming the main source of defence equipment, signed an agreement with Israel to import 25% of the value of defence expenditure in 1966.

Israel signed many trade agreements in the few recent

years and has been trying to enter the E.E.C. as an associate after insisting in the start to be admitted as a member and member after insisting in the start to be admitted as a full member and now is asking to have few exemptions.

**Israel and the E. E. C.** Israel asked for a duty-free entry into the E. E. C. for goods made from E. E. C. raw materials and are processed in Israel. Israel demand for citrus exemption was refused due to Italy's opposition. In 1964, Israel was given moderate tariff reduction on 37 products excluding main exports. Israel's exports to the six have tripled in 1963 but the balance of trade was in EEC's favour by an amount of \$36 mn.

In 1965 Israel obtained its demand for exemption of exports using EEC raw materials but Israel could not obtain the same treatment as the Maghreb countries. In 1966 Israel failed to obtain 4 requests:-<sup>(26)</sup>

- (i) Tariff reduction on 9 industrial and 9 agricultural products.
- (ii) An exemption for eggs exports.
- (iii) A reconsideration for the reference price of citrus.
- (iv) An arrangement where by materials bought from the EEC countries and processed in Israel would only be taxed on the Israeli component.

A new diplomatic campaign was prepared to force the associate membership through if Tunis and Morroco were to be accepted. In October of the same year a formal application backed by Germany was filed surveying Israel's ties with Europe, its worsening trade balance and mutual benefits accruing to both parties. The EEC members still fear repercussions from the Arab World and the Italian citrus growers. This pledge was delayed till summer. Israel was and is still ready to take any proposal provided it would be given a full industrial custom union without voting rights or any other privilege.

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(26) *Economist Intelligence Unit*, 1967, p. 6.

After the June war, a custom union turned out to be the most practical approach and not an associate membership. This new proposal had to pass further studying. An important factor came out after June 1967, France's anti-Israel stand delayed any discussion of entry. Any movement will have to open on a settlement of a kind. The break down of trade figure for Jan. - May 1967 showed a 2-3% drop in trade figures with EEC and a corresponding rise with EFTA<sup>(27)</sup>.

### Other Trade Agreements

- (i) **U. S. S. R.** In order to decrease its heavy dependence on EEC, EFTA and the U. S. Israel looked for other markets. Russia sold its property in Israel for \$4.5 mn. The debt was to be settled by Israeli exports of citrus and fertilisers. This agreement started a new era of trade relations cut during the Suez crisis. This trend did not continue and was interrupted after the June war in 1967.
- (ii) **Ghana (1965)** A two years agreement to buy Cocoa at £10 mn. paying 20% in cash and the rest in Israeli exports.
- (iii) **Ivory Coast** An agreement was signed to increase trade from \$0.5 mn. in 1964 to \$20 mn. in 1970. Israel will export all agricultural and industrial goods and would import raw materials.
- (iv) **Hungary** An agreement was signed in 1965 to increase trade volume by 20%. A similar agreement was signed with Poland in the same year.
- (v) **Britain** A new British National Export Council was sent to Israel in 1965. The delay in this was mainly attributed to Arab boycott. The absence of such a board had little effect since Israeli exports to Britain rose by 16% in 1964 to £ 50 mn.

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(27) *The Economist Intelligence Unit*, -967, p. 9.

- (vi) Minor agreements were signed in 1966 with Turkey, Yougoslavia, Germany, France and the U.S. amounting to \$34 mn.
- (vii) **Rummania:** Israel became the first non-communist country to have a commercial office in Rummania. Trade figures were expected to rise to \$ 20 mn. in 1967. A new agreement was signed in 1968 to raise trade volume to \$ 30 mn. Half of the volume was to go to goods of technical nature. Israel will export industrial goods and import investment goods. The other half of the agreement includes Israeli export of agricultural goods. Rummania was the only country in the world to sign a trade agreement with Israel in 1967-68.

Any import to Israel has to undergo two requirements:—

1. A license.
2. An allocation of foreign exchange by the Ministry of Finance.

It had been the policy of the Israeli Government to consider the imports of inputs and investment goods as a necessary sin while the import of luxuries was considered as a deadly sin. These restrictions did not always work to improve the balance of payment situation as originally intended because of the adverse implications on the distribution of resources and on the export industries<sup>(28)</sup>.

Until 1954, foreign currency was restricted to necessities only. The Government shaped its imports not on the economy's possibilities were, but on the foreign exchange volume. This resulted in a misallocation of resources in that investments were attracted to luxuries rather than essentials. The Israeli government was following a «Tozeneth Haavetz policy» i. e., protective measures for its domestic industry. By this the government was disabling the Israeli merchant from free manœuvring in

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(28) A. Rubner, *The Economy of Israel*, New York: Frederick Praeger, 1st ed. 1960, p. 174.

the international markets. Exports as a result were subsidized, while imports were hampered.

Israel followed a two-rate system for its imports in order to be able to determine what types of imports are to flow into the economy. Investment goods were imported at below the average-rate and thus interfered with the optimum combination of machinery and labour<sup>(29)</sup>. The price of labour was artificially raised by the strong Histadrut and the price of investment goods, was artificially lowered by the below-average rate. This phenomena appeared clearly in the exaggerated use of machinery in the agricultural sector especially in the Kibbutz. Low rates were designed in the start for raw materials while high rates were to imposed on finished goods in order to encourage domestic production. Apparently this policy was never able to achieve its goals.

On the other hand, luxury goods were imported above the average rate which caused a prosperous black market for this type of goods. The Arabs of the West Bank were amazed after the June war when the Israelis dried up all inventories of luxury goods in few days. Luxuries could be exempted from this high rate only if<sup>(30)</sup> :—

- (1) The importer was a government agency.
- (2) The import item was to be used in an export industry.
- (3) The import item was to be used for defense.
- (4) The import item was sent as a present.
- (5) The import item was brought in by an immigrant.

The Israeli merchants reached a notable fact. They argued with the Government that instead of letting the black market prosper from dealing with foreign luxury goods local producers would open offices in New York that would sell dollar vouchers for mailing to Israel. These vouchers could purchase locally manufactured or assembled luxury goods. Rubner called

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(29) A. Rubner, *Ibid.*, p. 180.

(30) A. Rubner, *Ibid.*, p. 186.

this type of transaction as «internal exports». It was the only way that the merchants could combat the «foreign black market» by establishing an «Israeli black market».

As for exports, all except citrus and diamonds have been heavily subsidized by the Government. These exports become by definition unrequited exports. Exports are unrequited when:<sup>(31)</sup>

- (1) Their foreign currency proceeds are less than their import content.
- (2) The economy pays for the deficiency in the foreign currency proceeds at rate which is higher than the average rate.

«Therefore, by definition, the whole of Israel's export volume since 1948 consisted of unrequited exports - the important exceptions are : citrus, diamonds, religious and sentimental articles<sup>(32)</sup>.

On the other hand trade agreements did not serve their purpose to solve the continuous trade deficit problem, because exports within these agreements did not have high value added, for instance, citrus could be either bought by the same countries without a trade agreement or Israel could sell its citrus in free markets. The Citrus Marketing Board was forced to ration exports to free markets paying in hard currencies in order to sell to clearing dollar countries. This policy has changed recently and Israel is including those export items that can not sell competitively on the open market in trade agreements. All this would explain why only 14% of Israel's trade transactions were tied in 1966 while the ratio was 37% in 1957<sup>(33)</sup>. Usually goods exported to clearing-dollar countries have a high import content and thus the net earning would be small. Another fact is that Israel could have imported the same goods from its trade partners at a cheaper price, had it paid in hard currency.

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(31) A. Rubner, *Ibid.*, p. 194.

(32) A. Rubner, *Ibid.*, p. 196.

(33) *The Economist Intelligence Unit*, 1967, p. 7.



The Government bears the burden of subsidizing exports which means ultimately that the Israeli tax payer is the burden taker. The Israeli consumer who is the same tax payer bears a further burden of paying high prices for imports. The purpose of any subsidy is to increase the foreign exchange inflow to a country by encouraging infant industry or an industry in temporary difficulty<sup>(34)</sup>. The Israeli Government gave facilities to exporters:-

1. Export firms were granted cheap credit facilities.
2. Whereas importers were limited to certain markets, exporters were given the freedom to sell in any market.
3. Cartel practices were permitted for export industries only.
4. Any new export factory would be given many tax exemptions.
5. Government institutions charged lower fees to exporters especially in the transport sector i.e. ports and railways.
6. The Ministry of Trade furnished information, research, participation in fairs and foreign exports.
7. The Ministry of Finance reimbursed importers of Israeli goods for custom duties they pay in their countries. (Australia).
8. The establishment of a government export insurance.
9. The government subsidized transport costs.
10. Businessmen were given immense facilities by Israeli representatives all over the world.
11. Exporters were exempted from income tax.
12. The Histadruth was ready in difficult export years to agree on lower wage rates.

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(34) A. Rubner, *op. cit.*, p. 278.

13. Swiss Exports to Israel were taxed by the Swiss government and proceeds were channeled to subsidize Israeli exports to Switzerland.

All these efforts were activated by the immense facilities provided by the World Jewery and the great powers. Nevertheless this heavy subsidy measures did not achieve its goals. The period of the subsidy has been extended for a long time and then infant industry has become an old but still a weak one.

#### IV. CONCLUSION

Israel has shown an increasing trade deficit since the early days of its establishment but has managed to offset this trend with a surplus in its balance of payments. To recapitulate, it is important at this final stage to mention some of the main characteristics of this trend.

1. Most capital imports are temporary and the projection for the coming years foresees a decline in unilateral transfers for which exports must be substituted and an improvement in the balance of trade becomes imperative. This fact may explain one of the reasons for the June War, where Israel has tried to draw the attention of World Jewery to the difficulties it would be facing in the near future.
2. The need for exports is not only important to the balance of trade situation but to production and employment levels too. If imports were to contract because of lack of means to repay, the contraction would curtail production and would bring about unemployment. Furthermore, the dependence of Israel on two items is becoming more dangerous. The citrus industry is almost saturated and less labour is needed in it. On the other hand the diamond cutting industry, although a handicraft industry cannot absorb more labour. This alone would explain the need for new export industries that would be able to employ the unemployed force.

3. The percentage of imports in gross national product in 1960 was 38.4% for Holland, 27.6% for Israel and 3.2% for United States<sup>(35)</sup>. To pay for this high level of imports, Israel is forced to increase its exports.
4. The percentage of exports in gross national product in was 35.1% for Holland, 11.3% for Israel and 3.6% for the U. S. If we compare these figures with the import figures we can see that both Holland and the U. S. are able to pay for their imports while Israel depends mainly on unrequited items.
5. Yet one cannot deny that Israel has a relatively high per capita level of exports which was \$216 in 1962. The same ratio was \$227 for EFTA, \$199 for EEC and \$113 for the U.S.<sup>(36)</sup>. If we apply the same ratios to some of the Arab countries, we find that it is \$10 in Jordan, \$10 in Iraq \$30 in Syria and \$10 in the UAR in the same year. (Figures taken from Economic Development in the Arab World).

All these facts call for a quick policy of adjustment to international conditions. Any small country has to devote a large part of its resources to the export industries in order to be able to pay for the import of many of the goods that it lacks. The internal market is small and saturated. The only way to maintain a high level of employment and a sustained economic growth would be to find foreign markets for exports. The future of the Israeli exports is found in the developed countries which take almost 85% of its total exports. This would mean that Israel should import raw materials, process them in Israel and export them finished as the case is in the diamond industry. Israel would probably start on a policy of large scale light industries in order to be competitive in world markets.

The EEC is the best outlet for Israeli exports. Israel's main

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(35) D. Horowitz, *The Economics of Israel*, London: Pergamon Press, 1967, p. 92.

(36) D. Horowitz, *Ibid.*, p. 93.

crop: citrus has been prevented from exemption and was discriminated although laborious negotiations have been taking place year after year. If Britain joins the EEC in the coming year or two, Israel will be hurt most.

Israel has been listed by OECD, IMF and IBRD as a developing country because of its peculiar trade balance and the ever rising population rate due to immigration. All these facts would outweigh the fact that Israel has a high per capita income.

Israel as a small country should call for: first, free trade and less protectionism such as advocated by the Kennedy Round; second, closer relationship with the EEC should be achieved through association or custom agreement; and finally Israel should consider itself as a developing country and thus its policy should change likewise.

Though exports are rising more than imports, still imports are double exports. The gap is bridged by a substantial import of capital goods. Investment level rose directly with the import of capital goods. Still Israel is faced with a race against time between difficulties of increasing the export level and difficulties in the decline in capital imports.

Israel should become economically independent as soon as possible. Two comments are in order:

1. To cut imports because of lack of funds would mean a cut on the standard of living and a similar cut on defense spending. The former would prove false the propaganda of Israel being an island of development amongst a hostile surrounding. The latter would mean the difficulty in protecting the frontier in a future war. Thus it is only for exports to increase so that the problem would be solved.
2. Economic independence for the sake of political independence shows an artificial pride by the Israelis who can never be independent politically from the West.

Israel is increasing its output significantly but the trade deficit is still increasing too. This is due to an increase in per capital income of three folds i.e., an increased consumption

level; and the poverty in natural resources. This may be a further explanation for the June War. Israel is searching for more resources: oil in Sinai, Tourism in Jordan and finally water sources in the South of Lebanon.

The expansion of exports is the main concern of the Israelis because it can solve their major problem of the adverse balance of trade. The balance reveals many structural defects that have been mentioned before together with competitive capacity being affected by an excessive internal consumption and rising costs of production.

Israel attempts to achieve a higher level of exports depend on finding more markets, using its skilled labour in a competitive manner, the production of protective foods i.e., citrus and vegetables that have markets in the developed West and finally the specialization in processed industries.

**TABLE I**  
**EXPORTS BY SELECTED GROUPS OF COMMODITIES**  
*(1949-66) (U.S. \$ mil.)*

Year	Mining	Tires	Industrial Exports				Total	Agricultural Exports				Grand Total
			Chemicals	Food	Clothing & Textile	Diamonds & Polished		Eggs	Citrus			
1949	.29	—	.43	2.8	.36	5.1	10.3	.07	18.0			28.4
1950	.15	—	.52	2.6	3.9	8.8	18.1	—	16.7			35.1
1951	.13	—	1.2	4.6	6.5	11.6	28.6	—	15.9			44.7
1952	.39	.08	.56	3.9	4.7	11.4	26.8	—	16.6			43.4
1953	1.5	.9	1.4	3.0	5.4	12.7	35.5	.13	21.6			57.6
1954	3.1	2.2	2.7	4.0	4.6	15.7	50.5	.18	34.0			86.3
1955	2.9	2.5	2.9	3.4	5.4	20.2	54.9	.15	31.6			89.0
1956	3.7	3.7	3.9	6.1	5.6	24.7	63.5	.6	40.1			107.1
1957	3.9	4.8	7.5	7.7	8.4	35.3	86.9	.6	48.4			141.2
1958	2.3	5.7	6.0	8.6	9.3	34.2	83.7	4.8	48.4			140.6
1959	6.5	6.4	8.7	13.5	11.3	46.7	120.7	6.7	45.9			178.7
1960	7.1	7.7	10.4	14.7	18.2	60.8	153.4	10.6	46.6			216.6
1961	6.2	8.3	12.3	16.3	24.5	70.2	182.0	12.1	40.9			245.3
1962	6.4	9.8	11.5	17.3	30.1	89.3	210.2	8.6	49.2			279.1
1963	7.3	8.7	13.4	24.2	31.1	115.9	262.4	5.2	47.7			351.4
1964	12.4	8.4	17.3	30.6	39.4	137.6	305.0	5.9	52.8			372.3
1965	13.9	8.8	24.7	32.7	40.1	153.6	343.5	4.9	71.1			429.5
1966	19.1	8.6	24.8	34.6	44.9	189.5	408.3	3.8	74.7			503.2

Source. Statistics Abstract of Israel, Central Bureau of Statistics, 1967, NO. 18, P. 221.

**TABLE II**  
**ISRAEL'S DEPENDENCE ON TWO EXPORT ITEMS**  
*(1949-66) (U.S. \$ mil.)*

<i>Year</i>	<i>Polished Diamonds</i>	<i>Citrus</i>	<i>Total</i>	<i>Total Exports</i>	<i>Percentage of Exports</i>
1949	5.1	18.0	23.1	28.4	82
1950	8.8	16.7	25.5	35.1	74
1951	11.6	15.9	27.5	44.7	62
1952	11.4	16.6	28.0	43.4	63
1953	12.7	21.6	34.3	57.6	59
1954	15.7	34.0	49.7	86.3	58
1955	20.2	31.6	51.8	89.8	58
1956	24.7	40.1	64.8	107.1	51
1957	35.3	48.4	83.7	141.2	60
1958	34.2	48.4	82.6	140.6	59
1959	46.7	45.9	92.6	178.7	51
1960	60.8	46.6	107.4	216.6	50
1961	70.2	40.5	110.7	245.3	45
1962	89.3	49.2	138.5	279.1	41
1963	115.9	74.2	190.1	351.4	53
1964	137.6	52.8	190.4	372.3	51
1965	153.6	71.1	224.7	429.5	50
1966	189.5	74.7	264.2	503.2	51

Source: *Statistical Abstract of Israel*, Central Bureau of Statistics, 1967,  
 No. 18, Derived from table on p. 221.

TABLE III

## EXPORTS BY AREAS (1962-1966)

(in U.S. \$ mil. &amp; %)

Area	1966		1965		1964		1963		1962	
	\$	%	\$	%	\$	%	\$	%	\$	%
Europe	312.7	62.2	264.7	61.0	232.7	62.1	228.2	65.3	171.7	61.0
E.E.C.	143.4	28.4	121.6	28	104.1	28	106.5	30	72.8	26
E.F.T.A.	119.4	23	102.0	23	94.3	25	96.3	27	75.0	27
Other Europe	27.4	5.5	24.1	6	19.3	5	15.6	5	15.4	6
Comecon Countries	22.5	5	16.9	4	14.9	4	9.6	3	8.4	3
U.S. & Canada	84.2	16	68.9	16	60.3	16	52.0	15	47.9	17
Asia & Africa	85.3	17	78.0	18	61.2	16	53.8	15	43.6	16
Others	20.9	4	17.8	4	18.0	5	17.3	5	15.9	6

Source: *Statistical Abstract of Israel*, Central Bureau of Statistic, 1967, No. 18, p. 218.



**TABLE IV**  
**IMPORTS BY SELECTED GROUPS OF COMMODITIES**  
*(1957-66) (U.S. \$ mil.)*

<i>Year</i>	<i>Transport Equipment</i>	<i>Rough Diamonds</i>	<i>Machinery</i>	<i>Crude Oil and Products</i>	<i>Chemicals</i>	<i>Soya Bean</i>	<i>Iron &amp; Steel Plates &amp; Sheets</i>	<i>Grand Total</i>
1957	48.3	—	47.9	53.9	—	—	—	432.8
1958	31.3	—	72.4	40.4	—	—	—	420.9
1959	29.3	—	65.4	34.7	—	—	—	427.2
1960	54.0	—	69.9	34.9	—	—	—	495.6
1961	86.4	57.9	78.2	34.2	29.7	15.8	12.0	583.9
1962	161.9	72.4	50.2	39.7	35.4	21.4	17.2	626.9
1963	63.4	100.2	51.9	40.7	34.4	19.4	20.3	661.9
1964	112.2	117.5	55.3	43.1	40.6	26.4	25.6	804.1
1965	83.8	111.5	59.2	50.1	43.2	26.7	23.0	814.1
1966	51.9	138.8	76.4	56.2	45.8	30.8	19.8	810.6

Sources: (a) *The Economist Intelligence Unit (E.I.U.), (1964-67)*  
 (b) *The Bank of Israel Annual Reports (1958-66)*

**TABLE V**  
**IMPORTS BY AREAS (1962-1966)**  
*(in U.S. \$ mil. & %)*

Area	1966		1965		1964		1963		1962	
	\$	%	\$	%	\$	%	\$	%	\$	%
Europe	451.6	54	472.3	56	500.7	60	374.4	55	326.5	51
E.E.C.	198.0	23	201.5	23	241.3	24	155.8	28	149.9	23
E.F.T.A.	222.8	27	244.3	29	228.1	27	197.6	29	159.3	25
Other Europe	14.0	2	9.9	1	8.4	1	3.9	1	8.9	2
Comecon Countries	17.7	2	16.5	2	22.7	3	17.1	3	8.4	1
U.S. & Canada	226.8	27	217.2	26	218.1	26	193.6	28	217.8	34
Asia & Africa	57.5	7	57.2	7	46.0	6	38.7	6	33.2	5
Others	96.5	11	85.4	10	72.6	9	65.1	10	56.8	9

Source: *Statistical Abstract of Israel*, Central Bureau of Statistic, 1967, No. 18, p. 218.

**TABLE VI**  
**IMPORTS BY ECONOMIC DESTINATION (1958; 1962-1966)**  
*(U.S. \$ mil. & %)*

Year	Total Imports	Consumer Goods		Production Inputs		Investment Goods	
	\$	\$	%	\$	%	\$	%
1958	423.1	48.6	11	298.4	70	76.1	19
1962	634.5	44.4	7	447.1	70	143.0	23
1963	672.1	58.0	8.7	474.0	70	140.1	21
1964	837.5	82.5	10	557.6	66	197.4	24
1965	832.2	82.7	10	570.8	68	178.7	22
1966	832.6	88.2	10.5	604.7	70	139.7	19

Source: *Statistical Abstract of Israel*, Central Bureau of Statistics, 1967, No. 18, Derived from table on p. 225.

**TABLE VII**  
**BALANCE OF FOREIGN TRADE (1949-1966)**  
*(U.S. \$ mil.)*

<i>Year</i>	<i>Imports (Cif)</i>	<i>Exports (Fob)</i>	<i>Balance</i>	<i>as % of M</i>
1949	251.9	28.4	—223.5	11.3
1950	300.3	35.1	—265.2	11.7
1951	381.6	44.7	—336.9	11.7
1952	322.2	43.4	—278.8	13.5
1953	279.9	57.6	—222.3	20.6
1954	287.2	86.3	—200.9	30.0
1955	334.4	89.0	—245.4	26.6
1956	375.5	106.5	—269.0	28.4
1957	432.8	140.1	—292.7	32.4
1958	420.9	139.1	—281.8	33.0
1959	427.2	176.3	—250.9	41.3
1960	495.6	211.2	—284.4	42.6
1961	583.9	239.0	—344.8	40.9
1962	626.9	271.4	—355.5	43.3
1963	661.9	338.2	—323.7	51.1
1964	804.1	351.8	—452.3	43.1
1965	814.1	405.7	—408.4	50.1
1966	810.6	476.8	—333.8	58.8

Source: *Statistical Abstract of Israel*, Centra Bureau of Statistics, 1967,  
 No. 18, p. 208-9.

**TABLE VIII***TERMS OF TRADE (1961 = 100)**From 1955 to 1966*

<i>Year</i>	<i>Price of X</i>	<i>Value of X</i>	<i>Price of M</i>	<i>Value of M</i>	<i>Terms of Trade Px/Pm</i>
1955	105	37	105	57	100
1956	111	44	111	64	100
1957	115	57	119	73	97
1958	113	56	106	72	107
1959	102	73	103	73	99
1960	99	88	103	85	96
1961	100	100	100	100	100
1962	99	114	98	107	101
1963	103	143	99	114	104
1964	103	152	101	142	102
1965	107	175	103	141	104
1966	114	205	105	141	109

Source: *Statistical Abstract of Israel*, Centra Bureau of Statistics, 1967,  
No. 18, p. 210.

TABLE IX

MAIN IMPORTERS OF ISRAELI PRODUCTS (1962-66)  
(% of total value)

Year	U.K.	U.S.A.	West Germany	Netherlands	Belgium	Switzerland	Japan	E.E.C.	E.F.T.A.
1962	14.0	15.7	9.8	5.0	4.9	6.5	—	28.0	26.0
1963	14.5	14.0	12.0	6.6	5.4	7.2	2.3	30.0	28.0
1964	12.4	14.9	8.9	8.1	5.9	7.0	3.7	28.1	25.4
1965	11.7	14.3	9.3	8.5	5.4	6.1	3.8	28.0	24.0
1966	13.0	12.0	9.8	7.7	6.9	5.9	3.2	28.0	24.0

TABLE X

MAIN EXPORTERS TO ISRAEL (1962-1966)  
(% of total value)

Year	U.K.	U.S.A.	West Germany	Netherlands	France	Belgium	Italy	E.E.C.	E.F.T.A.
1962	32.9	16.3	10.1	4.3	4.8	1.5	2.5	23.0	25.0
1963	28.0	19.8	9.0	4.7	4.5	1.9	2.8	23.0	29.0
1964	24.5	19.1	7.8	4.2	8.2	4.4	4.1	29.0	27.2
1965	25.0	20.0	8.9	3.6	4.2	3.2	3.7	24.0	29.0
1966	26.0	19.0	8.4	4.6	4.5	3.8	3.6	24.0	26.0

ESSAYS ON THE ISRAELI ECONOMY

Source: *The Economist Intelligence Unit, Quarterly Review Israel*, (1967-1964).

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## FOREIGN AID TO ISRAEL

*By IBRAHIM HABIB*

### I. INTRODUCTION:

One must accept the fact that during its existence, Israel has achieved a rapid economic growth. It has absorbed one million immigrants most of them coming from the poor Afro-Asian communities. Agricultural and Industrial output respectively tripled and quadrupled. Public services grew tremendously, following the policy of the State striving to be a «Welfare State».

But absolute results are misleading in economics. What is pertinent to us, and to all parties concerned, is the relative results. In other words it is the input-output ratio that is of importance i.e. inputs of all factors of production coupled with tangible results. And that is where the myth of the «miracle in the desert» is destroyed, since the resultant output is not only a function of what that small, denuded, young state could have channelled as inputs, but also the result of what the rest of the world has offered it. These «offers» must be seen as a deduction from the rest of the world's aggregate national income and an addition to Israel's own. Credit might still be given to that country for the use it has done of these offered resources. A 250% increase in real National Income is not a negligible result at all. But at what price these results?

The price was enormous. Apart from the complete disruption of the price-cost structure, a five fold increase in prices, a fifteen fold increase in the money supply, devaluation after devaluation and heavy production and export subsidies for Industry and Agriculture, the highest price paid is the lack of

«economic independence»<sup>(1)</sup>. Some people might underestimate the price of economic independence: If the country is living and can continue to live beyond its means economic independence is irrelevant. But what if the country cannot continue living beyond its means?

The purpose of this paper is to find out the reason for the lack of economic independence, the amount and components of Foreign Aid, and upon these findings conclude by drawing up some prospective trends.

## **II. THE NEED FOR FOREIGN AID: FINANCING THE IMPORT SURPLUS**

The balance of Current Account of Israel has been consistently and more and more in deficit since 1949. The average yearly deficit over a period of 5 years grew from \$290 m in the beginning fifties, to \$325 m in the late fifties to a present \$450 m. Imports and exports have grown but the absolute results in imports outweighed the rise in exports so that the deficit is ever widening. In certain years, imports have jumped considerably. Thus in 1956, there were a \$217,9 m increase over the 1955 figure of \$326,6 m. This was due to the stockpiling in prevision of the Sinai campaign of the autumn<sup>(2)</sup>. Again in 1960-1961 and 1962 imports shot up tremendously because of the heavy purchase of ships, aircraft and the large-scale import of raw materials for the food industry after the 1959 drought. Also in 1964 a \$177 m rise was due to more ships, aircraft and machinery purchases. It is interesting to note that most of the annual increments of imports is used to purchase durable and investment goods. In 1966 imports were in the tune of \$1272 m and exports amounted to \$820 m, the deficit being actually \$452 m.

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(1) Editor's note: Economic independence refers to Israel's ability to finance its Balance of Payments mainly from domestic sources without reducing the present rate of economic growth.

(2) *Alex Rubner* «The Israeli Economy» Publishers: Frederick A. Praeger (New York) p. 28.

There are many reasons behind the Israeli persistent Balance of Payments deficit. First and foremost, the Government have pursued conflicting objectives. Under the pressure of the strong Histadruth, the Government could not resist wage increases and had to keep a high standard of living. Secondly, aware of its basic policy, the Government had to implement the requirements of a welfare state with all the additional burden that is to be supported by the Budget. Thirdly, as economic growth is a desired objective, huge investments had to be undertaken privately and publicly. Finally, a rising population, stemming from the immigration policy adds a pressure to the existing resources and hence a further demand on imports.

After some thorough studies made in 1959 by Don Patinkin and the World Bank, the Government got aware of the fact that its objectives were quite conflicting. In February 1962, it laid down its New Economic Policy. The main objective of this policy was to reduce Israeli dependance on Foreign Aid, whereby in 1966 it could do only with \$250 m. of Foreign Aid. The multiple exchange rates system was ended and the *Le* devalued to make imports more expensive and exports cheaper. Moreover, the NEP proposed to curb down the MPC<sup>(3)</sup> and compress the expenditures of the Public Sector and also curtail investments. After a mild success in 1963 where the deficit dropped some \$20 m, neither private consumption, nor public spending could be compressed. On the contrary, defence grew higher and higher as is evidenced also by the purchase of ships and aircrafts. The only outlet left was the compressing of Investments. In fact Investments started levelling off in 1963 but after a sudden burst in 1964 it decreased by 6% in 1965<sup>(4)</sup>. A direct result of this fall in investments is a rise in unemployment from 4% in 1965 to 10% in 1966 and 12% in 1967 and a slowing down of the rate of growth. Compared with an average

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(3) MPC, the Marginal Propensity to Consume defined as the increment to total consumption resulting from increasing income by one unit.

(4) *Annual Reports of the Bank of Israel*, 1963-64-65, Table I-II Resources and Uses.

of 10% for the past decade it was of 6% in 1965, 0.6 in 1966 and a possible 2% in 1967. Even though, the result of the Balance of Payments deficit in 1966 turned out to be \$452 m and not the projected \$250 m. With a price increase of 7% annually, the NEP has failed to achieve any major goal.

Moreover, over a span of 10 years, 70% of imports went for production inputs, and some 20% for investments. Thus we can safely assume that to maintain the same amount of resources and economic growth, imports cannot fall, especially that the import components of exports is steadily around the 43% mark. Thus any increase in exports will lead ultimately to a certain increase in imports. As the deficit on the balance of trade represents some 80% of the total B/P deficit, a reduction in the deficit is not foreseeable in the near future as far as imports will either stick to their level or increase, given the present trends of Private and Public consumption and the investment drive.

But what about the export side? With the 1967 November devaluation Israeli products are going to sell more in the export markets, but with the worsening of the terms of trade, the net foreign exchange gain might not be as much. Also, Great Britain, the main export market, Denmark, Spain and Ireland have also devalued their currencies, so that most of the advantages from the devaluation has been deleted. The trend seen in Agriculture exports seem to suggest that they are not liable to increase much, due to obvious limitations in irrigation and productivity while Industrial exports are much more promising due to their past records of progress and the great efforts devoted to their development. As for invisible exports, which accounts for 46% of exports, compared with invisible imports being 20% of imports, they are liable to great increases due to the big investments in ships and aircraft and the expansion of Foreign servicing especially in Africa.

To conclude, given the present trends in Consumption, Gov't. Expenditure and Investment and the net possible immigration, commodity imports are going to increase, invisible imports might be levelled off but their impact will be insignificant, so that total imports are going to rise eventually.

Also commodity exports are going to increase slightly due to the already mentioned reasons, but exports of services are promising indeed. Given the relative weight of each of these items on the aggregate and the past records of progress that each one has achieved, it seems that it is absolutely unlikely for the B/P deficit to be reduced, let alone be maintained at its present level. Even though percentage wise, exports are paying more for imports, but as the import base is increasing the gap is going to increase absolutely if not relatively. Computing the trend line for Imports and exports as related to years by the Last-Square Method gave us the following line equations:

$$Y_m = 63 X + 1258 \dots \text{Import Function}$$

$$Y_x = 46 X + 744 \dots \text{Export Function}$$

As the slope of  $Y_m$  is clearly greater than the slope of  $Y_x$ , it infers that the two lines are ever widening and that, under the present circumstances, they will never intersect, let alone keep a constant distance between them. A graphicale representation and analysis of the available data gives the same results.

### III. SOURCES AND COMPONENTS OF FOREIGN AID

The import surplus has been in the period 1960-1965 between 2 and 5% of Total Domestic Demand (I). To pay for this import surplus throughout the period between 49 and 67, Israel received a total amount of \$8,092 m. It has even managed to have some surplus since in 1966 its total reserves stood at £730 m. Israel has had many sources for its foreign aid. Even though this is not included in the above figure the biggest single contributor to Israeli achievements has been undoubtedly, the Arab (forced) contribution (some £2,900 m). One should also add to this amount the 200 millions sterlings received by the Jewish community, in the mandate periods, and other uncontrollable items as smuggling and undisclosed operations.

Foreign aid to Israel has changed over the decade, both volume and component wise. But before proceeding to an analysis of total foreign aid, the methodology used should be clarified. As a matter of fact, and following the line of thinking taken by the Bank of Israel, we will disregard short-term capital move-

ments. Those less-than-one-year capital movements have no significant durable effect on the trend or use of the foreign aid. Moreover, the net balance of short-term has been consistently negative since 1958, such a factor may be due either to speculative movements, or to the repayments of other loans, interests profits... etc... It is true that these movements reaching \$105 in 1962, but as they depend on unforeseen circumstances and do not obey to any long-term trend, we might exclude them from our analysis.

Thus the Foreign Aid to Israel is composed of two main items: 1) Unilaterale Transfers and 2) Long — and Medium — term Capital movements. The total of these two items have increased more than threefold over the years from a total of \$134 m in 1950 to \$494 m in 1966 and will reach at the minimum some 650 in 1967. But the annual receipts are slowly levelling off as might be noticed from Table I and especially in the year 1964-65-66 which ran respectively at \$626-589-493 m. But the total amount of Foreign Aid is not as important as its division between unilateral transfers and long-term loans. After having secured the largest share of total foreign and till 1959 (75%), unilateral transfers are decreasing in relative importance, till they have reached a low 50% in 1964. Thus the bigger proportion of loans as against unrequited transfers and the ever increasing amount of short-term loans relative to long-term loans reflect a worsening in the terms of financing the current deficit and will considerably increase the amount of interest payable in the future as well as the burden of debt redemption. Where the unilateral transfere have increased from \$89.6 m in 1950 to \$306.3 m in 1966 by 344%, the loans have increased from \$44.4 m in 1950 to \$187.2 m by 421%. A thorough analysis of the two main components indicate to us the reasons behind this change.

### **A. Unilateral Transfers**

Unilateral transfers were, and still are, the main component of Capital imports, even though declining in absolute terms and in relative terms also. A study of its sources and the dif-

ferent trends that these sources has followed would be useful in assessing their future reliability (See Table II).

The Restitution and Reparation Agreements with West-Germany has been throughout the years, the biggest share in Foreign Aid to Israel. Restitution Payments from West-Germany, which are payments to individuals have constituted the largest private transfer item in recent years; they were enacted by a German Law issued in 1954, which was to be terminated in 1965, but Germany passed a new restitution law in 1965 offering no time limit. These payments, made after presentations of applications from privates to the German, increased quite quickly from 1954 till 1962, then started to level off following the completion of large number of transfers under the old law. They stand now at \$110 m annually which is equal to one third of total unilateral transfers.

The Reparation Agreements was enacted in 1953 and terminated at the begining of 1966. Under this agreement, Israel was to receive goods and services to get total value of DM 3,450 million or about \$830 m. This total amount has been effectively paid by 1966. During the 10 years in which the Reparation Agreements was implemented some \$50 m were transfered to Jewish Organisations abroad as their fixed allotment under the Agreement. Thus net capital imports from this source totalled some \$780 m. At the completion of the Reparation and the first Restitution Agreements, Israel has received some \$1,920 m which is the biggest single contribution over the years. The end of the Reparation Agreements means that Unilateral transfers are going to shrink greatly, a thing which is worrying Israel quite a deal.

Another important item is the Institutional Transfers, which has proven to be the most constant and most reliable souce of Foreign Aid. These institutions as the Jewish Agency, the Jewish National Fund and the Keren Hayesod, will go on continuing helping Israel, no matter what. Until the end of 1965 these institutions have sent some \$1240 m. But in examing the receipts of this item over the years, one notices that the amounts received have been greatest i. e. the Institutions have been most active, in thise years where there were

some political disturbance in the area, years of troubles, and immigration waves. Thus in 1952, when the revolution broke out in Egypt, this help jumped from \$84 m to \$98 m. In 1954 when Egypt concluded a deal of arms with Czechoslovakia, the aid increased from \$76 to 118 m. In 1956, the Suez crisis made the help rise from \$58.9 to 102.9 m. In 1961, towards the end of the Syrio-Egyptian union, when the pressure was high on the frontiers, aid jumped from \$83.8 to 100.4 m. In 1965, at the advent of the Regional faction of the Baath Party in Damascus, and the troubles at the frontiers, Israel received \$113 m as compared with \$86.2 m in 1964. Finally in 1967, in June alone, Israel is said to have received some \$500 m. This cause-to-effect relationship proves that frontier troubles or political unrest in the region is financially beneficial to Israel.

One should also add, the Private transfers in cash and kind coming from particulars. These transfers are steadily increasing and are quite directly linked with the immigration waves. In 1952-53-54 where the immigration was low (9,908-2,612-9,985) the private transfers were of the order of 7, 8, and \$14 m, while in 1962 where immigration was 50,000 these transfers amounted to \$57.8 m. So the receipts from this item will decrease after the end of the immigration waves, after they have totalled \$594 m till 1965 with an annual average of \$37 m. The U.S. Government direct grand-in-aid is decreasing annually, for while it stood in the \$20 m in the fifties, its present average is \$8 m reaching a low \$3 m in 1965. The U. N. technical assistance provides an annual small aid of the tune of \$0.2 m.

All in all, unilateral transfers do not seem to keep pace with the increase in import surplus. With the ending of the German Reparation Agreements and the possible decrease in immigration, they might as well decline absolutely. Even though, these prospects do not take into account the active Zionist institutions, which will not let Israel suffer any financial hardships.

## **B. Long and Medium-term Loans**

Loans needed to cover the gap between the import surplus and the unilateral transfers have been steadily increasing in



amount and gaining importance throughout the years. The annual average for the fifties was \$79 m while in the Sixties it stands at \$198 a. Their relative importance in Total Capital Imports have jumped from an average 38% of the total in the fifties to a present 38%. The amount of loans received up till the end of 1966 totalled \$2.175 m. Naturally, financing the deficit of the B/P by loans poses big problems for the Israelis, for they have to carry on the burden of loans, repay them one day, and arrange for the accrued yearly interests. Nevertheless, the diverse sources of these loans have been differently burdensome on the Israeli Economy.

The investment, for philanthropic reasons of Jews outside Israel, is in Israeli Bonds issued by the Govt., the Histadrut and other institutions. The most important of these being the Independence and Development Bonds, which has reaped some \$500 m of proceeds since their inception, way back in 1950.

The annual receipts from the sale of these bonds is very constant and stands near the \$30 m mark. But these bonds can be seen as an indirect grant to Israel by World Jewry. On this instance a declaration in 1958 by the Ministry of Finance to the Histadrut Journal «Davar» Stated: «The Ministry of Finance and its American advisers are of the opinion that 95% of those who purchase these bonds do not even know what interests these bonds bear»<sup>(5)</sup>. So, such buyers will refrain from pressing the Govt. to repay them their investments, if the State is in financial trouble. Moreover the «average interest paid on these debts remained unchanged or even decreased slightly, despite the rise in international interest rates»<sup>(6)</sup>.

Sales of Independence and Development Bonds between 1955 and the end of 1965 aggregated about \$828 m while some \$330 m worth have been redeemed. The liability on account of accumulated interest on saving bonds amounted to \$42 m so that the outstanding debt on account of Bonds reached \$ 532 m at the end of 1965. An interesting trend to bring out is that

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(5) Alex Rubner «The Economy of Israel» (New York: Frederick Praeger; 1960) p. 32.

(6) Annual Report Bank of Israel, 1965, p.

whenever the figure of Net sales of Bonds has decreased; (which means that cashing the Bonds is greater than their sales) the figures for Private Capital for Investments have jumped up in the same year quite to the same extent. This fact is plainly seen in comparing the Figures for Bonds and the Figures for Private Investments in Table III (These figures are understood to be NET figures).

Another important source of Loans, and one of the cheapest sources, is the U.S. Govt. These loans were extended to Israel through two ways. The first was the extension of loans under law 480. This loan stems from the sale of surplus food products in the Israeli market and the repayment of only 10% of the proceeds. The remaining 90% is divided between direct grants, already accounted in the Unilateral transfers and low-interest loans redeemable in Israeli Pounds-Up to 1962, the bulk of U.S. aid to Israel was extended in the form of loans redeemable in Israeli Pounds and carrying low rate of interests. In recent years however, there have been a change in U.S. policy and most of the loans now bear interest of 2-3.5% and are repayable in Dollars. The direct Grant-in-aid constitutes a small proportion of Total American Aid. In 1965, for example, Grant-in-aid was \$5 million while the remainder was given in the form of loans - approximately \$48 m as a 20 year loan repayable in dollars bearing 3.5% interest, and some \$20 m long-term loan repayable in Israeli Pounds at 4 1/8% interest.

The second way to provide U. S. aid was through the Export-Import Bank. Since 1949, this Bank has granted Israel several loans, to an aggregate amount of \$223 m. In 1965, repayment was completed on the first of these loans obtained in 1949 in the amount of \$135 m. At the end of 1965 the outstanding liabilities to the Bank was still some \$55 million.

Total liabilities to the I.B.R.D. (World Bank), reached \$64 m in 1965. Since 1962, World Bank has approved loans to Israel to a total of \$91 m, for the construction of the Ashdod Port, the Dead Sea Works program, the development of the road network, and for the Industrial Development Bank. Other Governments assistance stopped since 1954, after having provided an approximate amount of \$80 m.

Nowdays, the most promising source of loans, is the private Capital for Investments. It has been steady till 1959, then started to increase sharply until now. As the Zionist immigration was slowing down, and with it the private transfers and other unrequited items, Israel was compelled to deal with the «Zionism of Money». In September 1967 and April 1968, Jewish businessmen and Industrialists from all nationalities, were invited to Jerusalem to study the possibilities of Investments in Israel. Israel hopes to get some \$400 m this way. But as sympathetic as these potential investors may be, the presence of some 225 kibboutzim, a radical form of agrarian collectivism covering some 30% of agricultural output, will not tempt them. Neither will the overwhelming Histadrut, the occupation of Arab territories, the remote peace and the gradual freezing of sympathetic feelings that some western country had yesterday for Israel. Nevertheless, these prominent Jewish businessmen promised to make efforts not only to promote investments in Israel, but also to participate in the management of these new Israeli ventures. Other commitments were also made:

1. Help develop markets for Israeli products in their home countries.
2. Mobilize Jewish and non-Jewish investments in their home countries for the production and marketing of Israeli Goods.
3. To arrange for patents, know-how and management agreements with Israeli undertakings.
4. To investigate possibilities abroad for subcontracts for Israeli manufacturers.
5. To help Israel export engineering, scientific and technical services.
6. To recruit able managerial, merchandising and technical staff for Israeli enterprises.
7. To make arrangements in their own and other enterprises abroad for on-job training of Israeli management and technical personnel.

A number of deals were concluded in the Conference. These included the setting up of a \$100 m investment company; increasing the capital of the Israel Reinsurance Company from \$700,000 to \$5 m, and other projects.

All over the years, the foreign aid to Israel has been slightly greater than the cumulative import surplus, so that it was able to have a reserve of \$730 m by 1966. But the country's foreign exchange reserve underwent a marked change this year. Beginning in 1958, the reserves grew from year to year, but in 1966 they fell off by about \$20 m since the contraction of Capital imports was greater than the decrease in the deficit on current account.

Foreign currency indebtedness reached \$1,320 million at the end of 1966. Short-term liabilities accounted for only a small proportion of these figures (some \$110 m). But these reserves can help maintain a normal import surplus of \$500 m some 18 months only, if we make the improbable assumption that foreign aid is to be completely against future risks. Loaded with a heavy debt repayment, and faced with an ever-increasing import surplus, Israel will find it more difficult to work it out especially if it has to rely on loans. Unfortunately also, it has lost its optimism, after the expected \$250 m import surplus of 1966 turned out to be \$450 m, and 1966 was an especially good year. Economic independence if realized will be a hard fight indeed for Israel with two main victims, namely fast growth, and high standards of living.

**TABLE I**  
**CAPITAL IMPORTS (U.S. \$ million)**  
*(1950 — 1966)*

<i>Year</i>	<i>Unilateral Transfers</i>	<i>Long-term Loans</i>	<i>Short-term Loans</i>	<i>U.T. Total</i>
1950	89.6	44.4	62.0	68
1951	136.8	87.6	28.0	61
1952	191.1	114.9	1.5	62
1953	172.8	69.6	5.7	71
1954	260.6	71.2	—70.2	78
1955	210.4	76.3	0.1	78
1956	240.5	78.4	22.0	75
1957	245.4	69.4	9.2	77
1958	251.0	93.6	—25.0	72
1959	251.0	81.2	—26.5	75
1960	299.5	101.4	—55.6	74
1961	346.5	135.3	—71.9	71
1962	330.7	203.1	—104.7	61
1963	346.6	184.4	—97.7	65
1964	351.3	275.1	—66.1	54
1965	347.9	241.3	—28.8	50
1966	306.3	187.2	—41.5	62
Total	4,350.8	2,134.4		

Source: Annual Reports of the Bank of Israel.

**TABLE II**  
**COMPONENTS OF UNILATERAL TRANSFERS**  
*(1950 — 1966) in U.S. \$ Million*

<i>Year</i>	<i>Private Transfers</i>	<i>German Restitution</i>	<i>German Reparation</i>	<i>U.S. Govt. Grant in Aid</i>	<i>U.N. Tech Assistance</i>	<i>Institutional Transfers</i>
1950	19.6	—	—	—	—	70.0
1951	38.8	—	—	14.0	—	84.0
1952	6.9	—	—	84.0	2.3	97.9
1953	8.1	—	—	44.7	2.6	76.5
1954	14.8	—	40.9	37.2	1.8	118.4
1955	24.3	6.1	82.3	20.5	0.4	58.9
1956	25.5	18.8	87.5	6.8	0.4	102.9
1957	21.2	25.7	79.2	24.1	0.4	76.8
1958	25.3	45.0	77.9	11.2	0.3	79.1
1959	21.8	65.4	69.7	9.5	0.3	84.3
1960	28.3	70.7	66.4	9.7	0.2	83.8
1961	36.3	97.8	79.7	10.4	0.1	100.4
1962	57.8	110.5	88.3	8.0	—	84.0
1963	82.2	133.9	47.0	5.9	0.1	91.0
1964	89.2	138.9	28.5	8.2	0.2	86.2
1965	93.3	134.2	16.9	4.7	0.2	113.0
1966	91.5	112.7	16.7	3.0	0.2	103.4
		110.4	—2.0			

Source: The same as table I.

**TABLE III**  
**LONG — AND MEDIUM — TERM CAPITAL MOVEMENTS**  
 (1950 — 1966) in U.S. \$ Million

<i>Year</i>	<i>Ind. = Dev. Bonds</i>	<i>Ex. — Im. Bank</i>	<i>U.S. Govt. Loans</i>	<i>Other Govt. Assistance</i>	<i>Private Capital for investment</i>	<i>World Bank Other loans</i>
1950	—	44.4	—	—	—	—
1951	50.4	27.7	—	9.5	—	—
1952	46.3	27.5	—	11.2	29.9	—
1953	36.1	4.4	—	7.2	21.9	—
1954	29.3	1.8	—	21.2	19.0	—
1955	32.2	2.1	25.4	8.7	12.1	—
1956	47.4	2.1	32.6	—5.8	6.3	—
1957	44.7	—11.4	20.4	1.3	14.4	—
1958	33.7	—6.5	43.9	—2.2	24.7	—
1959	35.3	—	32.9	—	13.0	—
1960	29.1	—	31.3	—	41.0	—
1961	32.1	—	29.8	—	52.0	21.2
1962	33.4	—	35.4	—	82.0	58.9
1963	23.0	—10.9	42.7	—	135.4	—20.0
1964	24.5	—11.4	53.5	—	142.9	52.1
1965	33.3	—15.5	67.3	—	92.2	55.2
1966	11.3	—0.8	32.4	—	74.2	70.1

Source: The same as table I.

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**LABOR    FORCE**



# THE HISTADRUT AND THE LABOR FORCE IN ISRAEL

By LAYLA FANOUS

## I. THE HISTADRUT

### A. Nature and Task.

The history of the labor movement in Israel is closely bound up with Zionist settlement in the country, even though Zionism was not a workers' movement per se. The idea of the redemption of the nation through self-liberation and work was bound quite early to express itself decisively in the labor movement. An offshoot of the labor movement in Palestine, which is as early as 1882, was the foundation of the Histadrut.

The Histadrut was founded in 1920 as a socialist-led trade union movement. However, in the sense of being a trade union whose chief *raison-d'être* is to demand what trade unions everywhere else are demanding e.g. fewer working hours, a higher standard of living etc... — the Histadrut is a peculiar exception. That is, it is not merely the representative of the working class, but it also undertakes to unite the heterogeneous making up the Jewish population, which is primarily a Zionist duty implying the promotion of immigration and settlement. This task is a seeming contradiction to the principles of trade unions in other countries of the world. In every other country, trade unions have followed a policy of restricting immigration to reduce competition with the inherent danger of deteriorating wages and social conditions. In Israel, the situation is reversed. The Histadrut has undertaken as a vital task, to encourage immigration without regard to the immigrants' professions or trades and the ensuing consequences on the level of wages.<sup>(1)</sup>

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(1) Layla Kadi, *The Histadrut* (Palestine Liberation Organization, Research Centre, March 1967), pp. 25-26. (in Arabic).

Other tasks which the Histadrut had to tackle since the inception of the State were:

First, to participate on a nation-wide scale in the drive for national economic development, for continued full employment, absorption of new immigrants, boosting of industrial output and the forestalling of economic crises.

Second, to promote relations with the international labor movement, especially in the new states of Africa and Asia, as well to develop its own far-reaching activities in this field, in co-operation with State institutions.

Third, to continue the efforts for the fundamental rights of the workers, for development of the trade union organization, for labor safety and improvement of working conditions.

Fourth, to conclude collective contracts with the employers with preservation of the right to strike; to develop labor legislation; Fifth, to take into account the needs of the poorer section of the population, to develop the women workers' and young workers' welfare system, to develop and promote the Histadrut social institutions.

Sixth, to develop in every way the workers' collective settlement system, the stronghold of labor's enterprise in the country.

Seventh, to develop and promote the Histadrut's own economic enterprises and the collective working system in the interests of the economy, the country and the movement.

Eighth, to develop the Histadrut's cultural activity, particularly among new immigrant circles, with special emphasis on all measures likely to foster the creation of a labor movement inspired by the ideals of the Jewish renaissance movement.<sup>(2)</sup>

## **B. Membership**

Table I shows the development of the Histadrut's membership since 1950, as related to the growth of the total population

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(2) Walter Preuss, *The Labor Movement in Israel* (Rubin Mass, Jerusalem, 1965), p. 150.

and also to the Jewish population. There has been a steady increase in the Histadrut's membership over the years; compared to the total Jewish population, the Histadrut's membership increased by 42.2 per cent during 1950/66. Relative to the total population, there has been an increase from 17.7 per cent in 1950 to 25.2 per cent in 1966.

Membership in the Histadrut is divided into four categories: The first consists of the members of the cooperative, Kibbutzism and the Moshavim, and these belong to the labor union of agriculture; the second consists of wage and salary paid employees; the third consists of self-employed craftsmen and artists, and these belong to the Youth organization which is an affiliate of the Histadrut; the fourth consists of worker's wives.

**TABLE I**  
*MEMBERS OF THE HISTADRUT BY SEX*

<i>YEAR</i>	<i>1966</i>	<i>1964</i>	<i>1962</i>	<i>1960</i>
All members	669887	610942	551730	500003
Males	471864	436358	396638	368877
Females	183214	156939	134069	118336
Not stated	14809	17645	21023	12790
Total Jewish pop.	2344.9	2239.2	2068.9	1911.2
% of Total	28.6	27.3	26.7	26.2
Total population	2657.4	2525.6	2331.8	2150.4
% of Total	25.2	24.2	23.7	23.3

Source: Statistical Abstract, 1965, pp. 342 & 20/21.  
1967, pp. 293 & 19.

If, in addition to the above, account is taken of the various minor religious workers groups (Histadrut Hopoel Hamizraki) as well as the associated Youth labor organization (Histadrut Poalei Agudat Israel), both of which contribute to the Histadrut's central fund, one finds that some ninety per cent of all the workers and clerks in the country are organized in the Histadrut. <sup>(3)</sup>.

The Histadrut's members pay membership fees ranging between three to four and half per cent of their income provided the fees do not exceed the limit of 250 Israeli pounds. Usually, these fees are deducted directly from wages and salaries. In addition to membership fees, the Histadrut collects institutional fees from non-members for the social benefits that accrue indirectly to them. The institutional fee ranges at the present time, between two and two and a half per cent of the worker's income. Though the institutional fees are less, yet, the members benefit from the legislative, social and health services that are offered by the Histadrut. This, undoubtedly, acts as a strong inducement for non-members to join the Histadrut. <sup>(4)</sup>.

### C. Occupational Demographic Structure

In Table II some figures are given to indicate the Histadrut's demographic structure. The striking increase in the total Jewish population and in the Histadrut membership was largely due to mass-scale immigration after the creation of the State.

The evolution of the structure of the Histadrut membership since 1947 is shown in Table IIb. Despite the relative youth of the Histadrut population, this Table reveals a perceptible «ageing» process. Another characteristic feature is the evolution of family status during this period, supported by the fact that since 1947 a much larger proportion of immigration than before came from non-European countries, bringing into

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(3) Layla Kadi, *op. cit.*, pp. 28-29.

(4) Layla Kadi, *Ibid.*, pp. 30-31.

Israel many large families (by comparison with the family structure of European jews) in Table IIc. Thus, the percentage of married persons rose as a result of immigration from non European countries from 76 to 83 per cent.

The occupational structure of the Histadrut membership and its evolution since 1947 are shown in Table IId. These figures show that changes in the occupational structure in the Histadrut membership were not only the result of changes in the structure of the working population as such, but also of a greater measure of organization of state employees in comparison with Mandate times, when the percentage of jews in such employment was comparatively low and they were unorganized.

TABLE II

## MEMBERSHIP OF THE HISTADRUT

a)	Accordin to time of immigration	1961	%	
	Native population	92668	13.0	
	Immigrated before 1947	215536	30.4	
	Immigrated in 1948-1961	403687	56.6	
		711891	100.0	
b)	Age Group	1947	1961	
	18-29	30.4	28.7	
	36-54	64.3	60.4	
	Over 55	5.3	10.9	
c)	Marital Status	1947	1961	
		%	%	
	Single persons	24.0	16.6	
	Married	76.0	83.4	
d)	Employed in	1947	1955	1961
		%	%	%
	Agriculture	28.6	21.2	18.5
	Industry & building	32.2	27.1	29.1
	Education & services	32.9	36.4	40.1
	Unskilled workers	6.3	15.3	12.3

Source: Walter Preuss, *The Labor Movement in Israel, Past & Present* (Rubin Mass, Jerusalem, 1965), pp. 151-153.

Each member of the Histadrut is not only a member of the overall organization as such, but as a wage or salary earner, or member of an agricultural or industrial collective, he or she also holds membership in the relevant branch union or the national unions developed only with the passing of time; at first they numbered only three, those of agricultural, railway and clerical workers. The decision to set up branch union on the national scale for industrial and building workers did not come until later.

Table III shows the principal national trade union organizations; the figures for 1963 also give an outline of the occupational structure of the Israel labor community in that year. These figures give a general idea of the Histadrut's strength in the various occupational branches. They also bring out a characteristic of the Israeli Trade union system, namely the comparatively large number of the free professions and clerical workers who belong to a unified organization.

#### **D. The Employment Situation**

Developments in the trade union field after the creation of the State were mainly determined by the fact that unemployment was to be cut to a minimum. With State control of Labor Exchanges, the Histadrut's responsibilities in these matters were diminished, although its active vigilance in this field never abated.

The Histadrut undertook a full-scale drive to improve productivity. Already during the second World War a start had been made with setting up joint production committees in the leading enterprises; in 1952 an agreement was concluded with the Industrial Employer's union for the creation of such committees in all the larger enterprises. The aim of these committees was to promote higher productivity. At the Histadrut's ninth general convention, held in 1960, Secretary General Becker reported that :

«To sum up, one can fairly say that the Histadrut's work in providing employment and raising product-



**TABLE III***MEMBERSHIP OF THE HISTADRUT BRANCH UNIONS*

<b>Trade Union</b>	<b>1944</b>	<b>1950</b>	<b>1963</b>
Agricultural workers	30000	50000	92000
Clerical workers	7500	42663	90000
Building & Public works	7040	29094	88000
General Industrial workers	1070	1981	15000
Metal workers	6210	12187	53000
Teachers	965	2181	17000
Food industry	3645	5774	15000
Textiles, clothing, leather	2360	3352	25000
Transportation	3490	9654	30000
Wood workers	1280	3245	10000
Health workers, doctors, nurses	3500	6000	13000
Engineers, technicians	806	1928	11500
Printing & paper	940	1487	4500
Seamen	—	—	4500
Diamond workers	—	612	2500
Liberal Professions & others	1956	3224	13000

Source: Walter Preuss, *Ibid.*, p. 160.

ivity has justified our expectations, and that development in all the branches of the national economy, including public and other services, lead us to hope that this process will continue»<sup>(5)</sup>.

The increase in productivity is partially due and the result of the extensive post-graduate school system, which even since the State took control of education as a whole, is to some ex-

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(5) Walter Preuss, *Ibid.*, p. 162.

tent maintained by the Histadrut and the working Youth organization. In 1960, 25 institutions were giving post-graduate training to 10000 adult student in all occupational branches; the Youth post-graduate schools, including agricultural institutions have 13000 trainees. In parallel, 3000 young people receive training in the Histadrut's special handicraft schools.

## 1. Wages and Prices

Since the creation of the State, the Government set itself to cope with mass-scale immigration and to develop the economy in conjunction with reducing inflationary tendencies and balance of payments difficulties: In such a framework the Histadrut was faced with the difficult task of ensuring and raising the living standard of the masses without endangering the economy as a whole, and in parallel not only of integrating the masses of new immigrants, but also, with time, of equalizing their living conditions with those of the workers already integrated. These aims could naturally not be achieved all at once; new paths had to be trod in negotiations with the employers, and in maintaining cooperation with the government, as well as through the creation of independent Histadrut institutions, by social legislation etc...

Among the factors which (apart from higher nominal and real wages) have helped since 1948 to improve the living standards of the working masses in Israel, are the following :

First, considerable improvements were achieved in the realm of social contributions such as length of annual holidays (including holidays for seasonal workers), severance pay for dismissed workers and clerks, employers' contributions to the Histadrut's medical fund, etc..., as well as other contributions by employers, fixed by law in collective contracts. On the whole, workers and clerks today are paid some thirty to forty per cent in excess of the nominal wage in the form of «fringe benefits», either on a basis of legislation approved by Knesset, or through collective contracts.

Second, some 400,000 workers and clerks, including all industrial workers on the basis of a nation-wide collective contract, are today organized in provident and pension funds which pay them considerable amounts, far exceeding those provided by State social insurance, in case of premature dismissal or when they reach retirement age. The provident funds are independent Histadrut institutions.

Third, the Histadrut's housing construction policy has enabled it to provide some 50 per cent of its members with houses of their own (the Government is responsible for housing construction for new immigrants).

Fourth, although no state medical fund yet exists, some ninety to ninetyfive per cent of all workers and clerks together with their families, are organized in the Histadrut's medical fund. The Histadrut's whole-social system is based on the principle of payment of dues according to income, but equal service for all; the totality of payments from the provident and other funds is linked with the cost-of-living index, and thus insured against depreciation.

Despite the improvements achieved above, yet a number of problems remain to be solved in the near future, particularly :

- 1) Problems of automatic cost-of-living allocations in an economy with inflationary tendencies and balance of payments deficits;
- 2) Problems of wage and salary differentiation between different occupational groups, which recently have repeatedly led to long-drawn out disputes and strikes;
- 3) Problems of method in the linking of the wage and salary scale to uneven rises in productivity in the various working branches.

## **2. Agreement on Rates and Labor Disputes**

Before 1948, the Israeli labor community had already concluded with the principal industrial, building, transportation and also agricultural employers agreements that guaranteed

comparatively favourable and stable working conditions; presently ninety per cent of the working conditions are determined by such agreements. The contracts establish all principal working conditions insofar as they are not determined by law, as well as wages; most of them provide for conciliation of disputes during the validity of the collective contract through joint commissions; cancellation of the contract is subject to previous notice. Many such contracts apply to an entire trade; hundreds of agreements with single enterprises exist in parallel.

One of the essential principles of the Histadrut trade union policy to this day is upholding the right to strike. The Histadrut has so far held tenaciously to this principle, despite readiness to negotiate and to refer disputes to conciliation. Table IV shows that although the number of workers and enterprises had increased considerably since 1948, if we disregard the data on work days lost, we still find that the number of strikes and lock-outs and the number of strikers since 1960 have increased considerably.

### 3. Problems of the Histadrut's Trade Union Activity

On the one hand, rapid economic development, the great volume of investment needed for the absorption of hundreds of thousands of immigrants, the fact that large and average-size private enterprises were developing along side the public sector, as well as a widespread rise living standard linked with this economic upsurge; and on the other hand, negative phenomena such as rising prices and the danger of inflation, fluctuations in the trade balance, export problems and the like — all these phenomena and trends continuously confronted the Histadrut with difficult problems in its trade union policy.

The fundamental question to be tackled is that which faces other labor movements : how can economic stability be safeguarded while the living standard of the masses is being continuously raised at the same time ? Are we faced with incompatibilities rooted in economic policy, or conversely, are economic progress and the well-being of the masses mutually interdependent, and what means or methods can achieve

**TABLE IV***STRIKES AND LOCK-OUTS, BY STRIKERS AND LOCK-OUTS  
AND WORK DAYS LOST*

<i>YEAR</i>	<i>WORK DAYS LOST</i>	<i>STRIKERS</i>	<i>STRIKES</i>
1949	57436	5189	53
1951	114290	9715	72
1953	35404	8804	84
1955	53978	9861	87
1957	165549	3692	59
1959	31328	5873	51
1960	47161	10006	113
1961	122897	26814	125
1962	241822	37588	144
1963	128001	86475	126
1964	160912	47168	136
1965	207561	90210	288
1966	155975	88616	282

Source: Statistical Abstract, 1965, p. 236.  
1967, p. 291.

*Note:* These data refer to work-stoppages of at least one day caused directly by labor disputes between employers and employees. They do not include indirect loss of work in enterprises which are not involved in such disputes but which was caused by the stoppage of work in another enterprise.

economic progress given the special conditions prevailing in Israel ?

Alongside this fundamental problem, more concrete questions of actual trade union policy came more and more into the foreground. Particularly these that follow have been constant preoccupations in the trade union sector:

First, is the Histadrut's «universality» which has been a notable factor in the attainment of its present position of authority and its great success being weakened by the unmistakable signs of relaxation of discipline — by the growing number of strikes, of disputes between various occupational groups attached to the Histadrut, and other phenomena ? What should be done to prevent the Histadrut from disintegrating into separate, independent trade unions — a process which would rock it to its foundations — while at the same time reconciling conflicting interests?

Second, should full freedom of the right to strike be maintained, or should certain restrictions be imposed such as compulsory arbitration or at least the obligation to submit to certain terms of conciliation — particularly in vital services?

Third, should wages and salaries be fixed on a more or less uniform basis, on the strength of overall agreement for all occupations, as has been the case in Israel until now, or should more decentralization be introduced, as well as «scientific» method of establishing wage-scales on a point system of job evaluation ? Should wage increases (except when prices are rising) be granted only as justified by increases in productivity, or should other factors be taken into consideration as well ?

Fourth, what basic principles should govern the dismissal of workers and clerks ? Should the social factors such as age, length of service, family situation etc... have priority, or should the economic interests of the enterprise have greater priority than up till now ?

### **E. Development of Labor Legislation**

The Israeli Government considered the enactment of social welfare and labor legislation as one of its top priority tasks in the new State: the laws of March 1959 outlined a programme providing the basis for a labor and social welfare legislation system introduced over a period of some fifteen years through close cooperation between the Government and the Histadrut. The main law is the 1954 National Insurance law where every

Israeli citizen is insured as from his eighteenth year of life. Housewives below the age of fiftyfive can take out a voluntary insurance. The law insures workers and clerks, as well as self-employed persons, against working accidents. It covers the old age, incapacitated survivors and maternity fields.

Other principal labor laws enacted since 1948:

- 1) The hours of work and rest law provides a 47 hour week for all working people with a rate of 25 per cent higher for overtime hours and limitation of night-shift work to seven hours;
- 2) The Annual Holidays Law lays down that every worker is entitled to fourteen days' paid holidays;
- 3) Night-shift work in bakeries is prohibited between 10 p.m. and 6 a.m.;
- 4) The Youth Employment Law prohibits the employment of children up to the age of fourteen, restricts working time to fourty hours a week for young people up to the age of eighteen and provides eighteen days' annual holiday for young people;
- 5) The Apprenticeship Law aims at ensuring that young people are given properly controlled vocational training in industrial branches;
- 6) The employment of women law prohibits night-shift work for women; expectant mothers are given 12 weeks' leave absence from work; women may not be employed in occupations that involve a hazard to health;
- 7) A general sanitary law governs sanitary conditions in enterprises and factories;
- 8) The Collective Agreement Law makes compulsory the registration of collective contracts, and empowers the Ministry of Labor to make agreements or separate provisions thereof, binding for all workers. A new amendment on «organization fees» provide for non-organized workers benefiting from collective agreements;
- 9) The law for settlement of labor disputes provides that labor disputes may be submitted to the State conciliation authorities. Compulsory arbitration does not exist in Israel;

10) Severance pay law provides for compulsory severance pay in case of dismissal at the rate of fourteen days per year of service for those paid on a daily basis, and of thirty days per year for those paid on a monthly basis;

11) Wages protection law ensures that wages and salaries are paid at regular intervals and provides penalties for excessive delays in payment;

12) The labor Exchange law compels employers to engage workers and clerks only through the State labor exchanges.

This remarkably comprehensive labor legislation, achieved by the Government, has set labor relations and conditions in Israel on clear footing and created the setting for strong labor unions.

#### **F. Economic Activity**

In the preceding section we dwelt on the labor movement's economic activity in the historic order of events. In view of the fact that in pre-State times the labor movement's initiative was a vital factor in determining how and to what extent the country would be developed and settled through Jewish labor, its economic activity assumed a scale unusual for world labor movements and developed on original lines, especially in the collective settlements.

1) Framework: The Cooperative Association of Labor (Hevrat Ovdim) is considered as the framework of the labor community's economic activity. The Hevrat Ovdim was set up as a blanket organization for all the Histadrut's economic enterprises and institutions, whether cooperative or administrative. That is, Hevrat Ovdim is the holding organization for all the Histadrut's economic enterprises; it coordinates their activity; the subsidiary enterprises operate autonomously within the framework of Hevrat Ovdim's constitution. Most of the subsidiary enterprises are very active in the economic field, and some own considerable private or working capital, while the parent body, Hevrat Ovdim, is not an economic enterprise and has no assets of its own. It, nevertheless, exerts a far-reaching



influence on their activity. One basic characteristic is that every member of the Histadrut is also a member of Hevrat Ovdim.

Thus, the Histadrut is not merely a trade union organization but concentrates within a single organization the totality of the labor community's field of activity; every member, whether wage-earner or member of a producer or service cooperative, is thus responsible for all the Histadrut sphere of activity. This approach was aptly summed up as follows by David Gurion, creator of the concept of the overall labor organization and of Hevrat Ovdim :

«The Histadrut is not a trade union, it is not a political party, it is not a cooperative nor a mutual aid society, although it is active in all these fields; it is more than all that. The Histadrut is a union of people who are building up a new home, a new state, a new people, new enterprises and settlements and settlements and a new culture; it is a union of social reformers which is not rooted in its membership book, but in the common destiny and tasks of all its members — in death or in life.»<sup>(6)</sup>

## 2) Extent and Aims:

The Histadrut's economic activity, as carried out by its coexistensive subsidiary Hevrat Ovdim, is divided into two sectors which differ by reason of their juridical structure :

- a) The cooperative sector
- b) Histadrut-controlled enterprises

The cooperative sector includes institutions and enterprises in nearly all fields of cooperative activity, the most important branches of activity are the following :

First, the worker's cooperative agricultural settlements, which are responsible for three-fourths of the nation's agricultural produce.

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(6) Walter Preuss, *Ibid.*, p. 182.

Second, the Tnuva marketing cooperative for agricultural produce and the Hamashbir central consumer cooperatives, which are responsible for providing agricultural equipment, and have established such factories as seed milling, tobacco, canning, shoes factories and others. These employ about 10,000 workers, and deal with such amounts approximating \$225 million a year; Third, Industrial and transportation cooperatives which control about 85 per cent of the nation's transportation activity. Here we have such companies as the «Zim» company, which is the largest maritime company in Israel; the «Al Al» airline company and others.<sup>(7)</sup>

The principle Histadrut-controlled enterprises are the following :

First, the Solel Boneh public utility building enterprises and its subsidiary industrial enterprises, incorporated in a separate organization, Koor; Second, the workers' Bank and the local saving and credit banks; Third, financial and investment companies controlled by Hevrat Ovdim. Their task include attracting foreign capital, undertaking industrial and similar projects; particularly in the sparsely settled areas, etc...; Fourth, the Hassneh workers' insurance company.

The significance of the labor-controlled enterprises within the national economy as a whole are :

a) The weight of employment in the labor-controlled enterprises, as related to total jewish employment. A comparison of the number of persons employed in labor-controlled enterprises with the total jewish employment figures shows that 27.5 per cent of all wage earners in Israel work in labor-controlled enterprises for 1962;

b) The gross product of the labor-controlled sector. Statistics shows that the labor-controlled enterprises account for some 35 per cent of total output.

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(7) Layla Kadi. *op. cit.*, pp. 50-55.

The labor-controlled enterprises undertake and carry out themselves works. A feature common to all is that Hevrat Ovdim — and thus the Histadrut — has control over their management and activity; they employ hired labor and give contracts to piecework groups, thereby differing basically from cooperative enterprises.

The largest of the controlled enterprises likewise associated with Hevrat Ovdim is Solel Boneh, which is the country leading building contractor and manufacturer of building materials, carrying out increasingly important projects such as harbour construction, public and government buildings, hospitals, universities etc..., both in the country and abroad, and employs about 28000 workers. The industrial enterprises controlled by Koor are steel rolling, cement and glass factories, ceramics, chemical and refractory plants, metal foundaries and a variety of workshops. <sup>(8)</sup>

The labor movement's principal financial instrument is the Workers' Bank and its subsidiaries. It was founded in 1921 with the help of a loan from the Zionist Organization repayable in five years. Ever since then, the Bank has been under the control of Hevrat Ovdim. Its task was to promote, through the granting of credits, to those labor enterprises which have always suffered from a chronic lack of capital. With time, however, the Bank was able to expand its activities to a number of other fields as well. Through various subsidiaries, the bank also deals in mortgage and industrial development, as a saving bank for members of the Histadrut, and in the usual line of banking business.

All this gives a glance on the far-reaching activity of the institutions, companies, subsidiaries, settlements and enterprises associated and subordinate to Hevrat Ovdim; It is of little wonder that the Histadrut was described as being «a State within a State». <sup>(9)</sup>

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(8) Layla Kadi, *Ibid.*, pp. 53-54.

(9) Alex Rubner, *The Economy of Israel*, (Frank Cass & Co. Ltd., London 1960), p. 44.

## II. JEWISH LABOR FORCE

### A. Participation Rates

In 1966, the ratio of labor force to the total working population was 53.1 per cent among the jews (Table B-1). For the period 1955/66, this ratio has been almost the same with very little change. However, the participation of the jews in the labor force has increased by 50.2 per cent during the period 1955 to 1966. <sup>(10)</sup>

**Table B-1**

*LABOR FORCE PARTICIPATION OF JEWS: 1955-66*

<i>Year</i>	<i>Population Aged 14 + (1000)</i>		<i>% Total</i>
	<i>Total</i>	<i>Belonging to L/F</i>	
1955	1178.5	631.2	53.6
1960	1391.9	735.8	52.9
1963	1592.4	839.5	52.7
1964	1655.6	883.6	53.4
1965	1727.4	912.4	52.8
1966	1785.1	948.4	53.1

*Note:* The first column includes total civilian plus not civilian labor force; the second column includes only civilian labor force.

*Source:* Statistical Abstract, 1967, pp. 262, 256.

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(10) I have chosen the year 1955 as the starting year because the labor force Surveys programs were launched in 1954, and any figures, therefore, for the earlier years are unreliable estimates.

The source of growth in the economy's labor force is, obviously, the new immigrants, and not the result of the natural increase in the Jewish labor force. In 1966, the participation rate of Jews born in Israel amounted to 175.2 thousands labourers of the labor force, while the participation rate of Jews born abroad (excluding non-jews) amounted to 699.4 thousand, a ratio of 4:1 approximately. Relatively, the pattern has been the same since the year 1955, with the Jews born abroad averaging half of that of the Jews proper in their participation in the labor force.

Similarly the participation rate of foreign Jews in the labor force is higher among the immigrants born in Europe and America than among those born in Asia and Africa. This is true of the whole period. According to Don Patinkin, this lower participation of Asian and African Jews in the labor force is due to the fact that a large number of the immigrants include both children and old people. Also, it is due to the low participation rate of women in Asian and African Jewish families, which similar to the Arab culture, looks unfavourably upon the working women.<sup>(11)</sup>

## B. Age Structure

In 1966, the ratio of the labor force to total Jewish population was 40.4 per cent among Jews; for the Arab population the figure is 23.6 per cent<sup>(12)</sup>. Compared to the Arab labor force in Israel, the participation rate of the Jews is high; also if we compare the Jewish labor force to the Arab labor force we find that there is almost 13 Israeli workers to each one Arab worker<sup>(13)</sup>. The reason behind this high participation rate among Jews is the age structure.

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(11) Don Patinkin, *The Israel Economy; The First Decades*, (Falk project for Economic Research in Israel, Jerusalem, December 1960), p. 30.

(12) The ratio is calculated by dividing the civilian labor force by total population for the Jews and Arabs:  $948.4 \div 2344.9$  and  $73800 \div 312.5$  respectively.

(13) The figure is calculated by dividing  $948.4$  over  $73.8 = 12.8$ .

Looking at Table B-2, we can see, at a glance, that the Jewish labor force is a middle aged one, where the majority of the labor force falls in the age group of 35-64. This fact should cause no surprise since the immigration and integration policy government emphasizes the labor aspect and gives priority to this particular age group. The salient features of Table B-2 are: First, the high proportion of the male labor falling in the age group of 35-54, with the ratio remaining constant over the period 1956-66, which averages around 96.4 per cent of the total labor force; Second, the next highest male proportion lies in the 55-64 age group, with the ratio increasing over time;

Third, the low ratio of the young population participating in the labor force, that is the 14-17 age group. In the 18-34 age group the proportion is slightly higher, but both decreasing over time; the reason behind this low participation rate of the young male Jewish population is, on the one hand, attributed to secondary and university education, and, on the other, to military service; Fourth, the low proportion of the older persons in the labor force which is also a reflection of the Government's immigration policy; Fifth, the low participation rates of women in the labor force. In 1966, out of 53.1 per cent of the labor force, within these age groups, 75.5 per cent are males while only 30.6 per cent are females. During the period 1955/66, this ratio has increased but by only 15.4 per cent. The structure is the same as that of the males except that a higher proportion falls in 18-34 age group compared to the other age groups, and a lower proportion in 55-64 age group, but increasing gradually with time. It has been alleged that the real weakness in Israel's labor force structure lies in the low participation rates of women, especially among the Asians and African Jewish families, where tradition and culture inhibits their participation in the labor force<sup>(14)</sup>. Probably a more plausible reason for the low participation of women is the failure of women working in households to report as unpaid workers and the limited demand for them.

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(14) Don Patinkin, *Ibid.*, p. 30.

**TABLE B-2**

*CIVILIAN LABOR FORCE BY AGE AND SEX: 1955-66*  
*(in percentages)*

	Age Groups					
Year	65 +	55-64	35-54	18-34	14-17	Total
MALES						
1955	38.3	82.3	96.4	80.9	42.2	80.1
1958	32.9	81.9	96.4	79.7	34.8	78.7
1959	34.1	82.4	96.4	80.4	37.6	79.1
1960	35.5	84.3	96.3	79.5	32.1	28.1
1963	33.9	88.2	96.9	80.0	36.1	77.0
1964	42.3	90.6	96.8	77.2	39.3	77.3
1965	39.7	91.0	96.4	76.2	38.1	76.1
1966	41.1	90.3	96.5	76.1	36.0	75.5
FEMALES						
1955	5.1	17.0	26.2	32.2	31.7	26.5
1958	4.9	18.2	27.8	33.9	26.3	27.3
1959	4.5	16.9	27.6	31.8	25.6	26.1
1960	7.3	18.5	30.1	33.2	21.1	27.3
1963	5.8	19.3	30.3	35.0	25.7	28.1
1964	6.7	22.4	31.4	36.0	27.5	29.2
1965	6.0	22.9	30.9	37.5	27.1	29.4
1966	6.7	23.5	32.2	39.6	26.3	30.6

*Source:* Statistical Abstract 1967, p. 262.

### C. Occupational Structure

An intersectoral comparison in Table B-3 brings out certain features which are important to note:

First, the high percentage of Jews employed in the Services Sector, which increased absolutely and relatively during the period 1955/66 reaching a high of 32.7 per cent in 1966. This high percentage is indicative that a high number of Israel's labor force is engaged in governmental and personal services which represents a form of «disguised unemployment»<sup>(15)</sup>. In view of the fact that, the Government's policy emphasized the integration of the greatest number of immigrants into the labor force and as quickly as possible, it does seem highly probable that there are many individuals whose services in Government and Public institutions are redundant, and whose employment accordingly represents a form of work relief. Consequently, the fact that the percentage of Jews employed in the services sector remained high is one indication that the Israeli government has not yet been successful in solving the employment problem.

Second, Table B-3 also shows the small percentage of Jews employed in commerce, and their relative decline throughout the period. It is a small percentage as compared to the Jewish new immigrants who had the same occupation abroad. In 1954, traders amounted to 64.5 per cent of total labor force while in 1955, those engaged in commerce amounted to only 14.0 per cent of the total labor force.

Third, the occupational structure shows a high percentage of Jews employed in manufacturing, and the trend depicts an increasing percentage over time, specifically a 20 per cent increase from 1955 to 1966. This is the result of the continuous attempts on the part of the Government to promote industry on a wide scale.

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(15) Editor's note: This type of unemployment implies that the marginal productivity of labor is zero in certain sectors of the economy and that a reduction of employment will leave total product unchanged.



It is important to note here that throughout the period a large segment of the Jewish labor force had to adjust to new working conditions in the labor market. To illustrate, it is estimated that only 7 per cent of the immigrants had previously worked in agriculture. This occupational composition did not correspond with the structure of demand or with the absorption policy, particularly in the early period, when the long-term goal was absorption in agriculture and population dispersal. This policy created demand for labor mainly in agriculture, construction and various public works, and it has to be met principally from persons who had other occupations abroad. With the passage of time, the industrial structure of the economy changed, and job opportunities for new immigrants outside agriculture increased, and hence, the percentage of men engaged in agriculture declined.

#### D. Unemployment

Since the establishment of the State, far-reaching changes have taken place in the labor market. Immigration was the decisive factor in changing both the quality and quantity of the labor force. On the other side, there have obviously been major changes in the level of aggregate demand, and in the demand for labor. One aspect of these developments is reflected in the data on employment, Table B-4. The data, although not entirely reliable, particularly for the early years of the State, does indicate the general trend. Table B-4 shows that unemployment was higher in 1949, both absolutely and relatively, than in the two subsequent years. In 1953 and 1964, unemployment reached a level which has not recurred since. The cause for the high level of unemployment in these years is attributed partially to the large influx of immigrants between 1948-52<sup>(16)</sup>, and partially to the significant decrease in the extent of government deficit financing, and the sharp contraction in construction activity in 1953<sup>(17)</sup>.

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(16) Yoram Ben-Porath, *The Arab Labor force in Israel* (The Maurice Falk Institute for Economic Research in Israel, Jerusalem, 1966), p. 47.

(17) Don Patinkin, *op. cit.*, p. 30.

**TABLE B-3**  
*JEWISH EMPLOYED PERSONS BY ECONOMIC BRANCH*  
*(Percent)*

<i>Year</i>	<i>Personal Services</i>	<i>Health Education</i>	<i>Government &amp; P/Admini.</i>	<i>Total Services</i>	<i>Transport &amp; Commu.</i>	<i>Commerce Banks</i>	<i>Electricity Water</i>	<i>Construc. &amp; P/W</i>	<i>Manufa-cturing</i>	<i>Agricu-lture</i>
1955	8.7	—	—	30.9	6.4	14.0	2.1	9.1	22.5	15.0
1960	7.8	14.8	8.3	30.9	6.4	12.7	2.3	8.9	23.8	15.0
1963	7.7	15.0	8.3	31.1	7.2	13.1	1.8	0.1	25.5	12.1
1964	8.1	15.3	8.0	31.4	7.4	13.3	2.0	9.3	26.2	10.6
1965	7.7	16.1	7.7	31.5	7.0	13.0	1.8	9.5	26.2	11.0
1966	8.3	16.9	7.5	32.7	6.6	13.5	2.1	7.8	27.0	10.3

Source: Statistical Abstract, 1967, pp. 270/271.

The years 1955 to 1957 witnessed also a high level of unemployment with very little changes. Since then, all indices indicate a steady decline in unemployment. For the purpose of measuring the absorption of immigrants in the labor force, Table B-4 shows that since 1957 the absorption policy of new immigrants was to some extent more successful than the previous years.

For the previous years, account must also be taken of the residents of immigration centres. These residents — no less than the unemployed — represented individuals who had not yet been integrated into the employed labor force of the economy. They were maintained for varying periods of time by the Jewish Agency, and were not permitted during these periods to register at the labor Exchanges. Consequently, they are not included in the unemployment estimates; and thus the rate of unemployment in 1949-52 was higher than indicated by the figures.

In the year 1966 unemployment reached new height, due to a decline in the level of aggregate demand. During that episode the rate of unemployment for men has been much higher than that of women, particularly in the early years; decreasing steadily through time.

The occupational structure of unemployment has various trends. In the early years, the level of unemployment is highest among unskilled workers followed by industry and public works workers. Invariably, unemployment in these three sectors decreased with the passage of time, but with the same relationship maintained. Presumably, the unskilled workers were trained, and as industry developed, it could absorb more workers.

Among clerks, the level of unemployment is lower than the above three sectors in the early years. Although over the years, the level declined, yet it decreased at a slower pace than unemployment in the industry and public works sectors, so that by 1966, the level of unemployment among clerks is the highest after unskilled workers.

In addition to unemployment proper, there are other types of unemployment in the economy. There is first of all, those who are employed on part-time basis due to their inability to

TABLE B-4

ESTIMATES OF UNEMPLOYMENT OF JEWS : 1949-64

Year	<i>According to LFS Definition</i>		<i>Labor Exchange Data</i>	
	<i>Annual Average</i> <i>(1000)</i>	<i>% of L/F</i>	<i>Daily Average</i> <i>Registered</i> <i>(1000)</i>	<i>% Unemployed</i> <i>19 or more</i> <i>Days a Month</i>
1949	29.6	9.5	6.4	14
1950	28.2	6.8	5.9	7
1951	29.3	5.8	6.3	5
1952	38.0	7.0	9.4	11
1953	61.3	11.0	17.7	18
1954	49.2	8.7	13.5	15
1955	41.7	7.3	10.7	12
1956	46.1	7.5	12.3	10
1957	46.7	7.5	12.5	9
1958	36.5	5.6	9.3	9
1959	33.3	5.0	7.4	7
1960	26.6	3.9	6.0	6
1961	24.1	3.4	5.1	5
1962	27.2	3.6	4.6	5
1963	27.9	3.6	4.0	3
1964	27.5	3.4	3.4	3

Source: Yoram Ben-Porath, p. 48.

find full-time jobs. In 1966, the percentage of labor force employed on a part-time basis was 15.7 per cent of total labor force, of which 10.5 per cent of the labor force were males, and 28.5 per cent of the labor force were females; that is, a greater proportion of females employed on a part-time basis<sup>(18)</sup>.

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(18) Statistical Abstract, 1967, p. 256/257.

Another relevant factor is the government work-relief projects, which I have already touched upon, where disguised unemployment in personal and governmental services amounted in 1966 to 32.7 per cent of the total labor force.

It has been contended that unemployment in Israel is structural in nature; that is, unemployment is higher among Jews of Asian and African origin than of European and American origin, and that in each case it is higher among new than among veteran immigrants. The explanation of the above lies in the low education levels of Asian and African Jews<sup>(19)</sup>. Since data are unavailable on the level of unemployment between the different kinds of Jews, there is no way of determining definitely whether unemployment is structural in nature.

### E. Wages

Wages in Israel are determined by labor market institutions through collective bargaining processes. The Histadrut is the main agency. It aims at increasing the basic wage rates all round, together with protecting the workers' living against the encroachment of inflation by linking wages to movements in the cost-of-living index.

Data on wages show that an increase in real wages was achieved. Viewed purely in trade union terms, it testifies to the tremendous power position occupied by the Histadrut vis-a-vis the State and the society. In an economic sense, and particularly in the first decade, it resulted in an excessive wage level, excessive in the specific sense of not permitting full economic employment of the available labor supply seeking jobs<sup>(20)</sup>.

Uri Bahral has examined the movement of real wages of workers from 1948 to 1958, and has shown that a continuous rise (except in 1951 and 1952) in real wages had been achieved.

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(19) Don Patinkin, *op. cit.*, pp. 35-38.

(20) B. Riemer, *Israel Ten Years of Economic Dependence* (Oxford Economic Papers, Vol 12, 1960), pp. 147-148.

However, when he compared the wages to the consumers' price index, he found out that the price index increased—especially during mass immigration — more than money wages, so that in fact real wages did not actually rise during those two years<sup>(21)</sup>.

In the second decade, the wage policy underwent improvements, such as linking it to productivity so that it can be safely said that wages are more compatible with market conditions than before.

An examination of Table B-5 depicts a trend of wage increase in all economic branches during the period 1961/66; however, it is interesting to note that the wage increases have not been uniform in all sectors. This non-uniformity in the level of wages is indicative of the failure of the Histadrut's policy to equalize wages in all sectors. Relatively, the wage increases have been greatest in agriculture and construction sectors with the lowest in the services sector.

A comparison of the relative increase in the wage level with the relative increase in productivity shows disproportionate movements, enough to indicate that what the Histadrut hopes to achieve and what it actually achieves are two different things. For example, in manufacturing wages increased by 93.5 per cent while productivity increased by only 50.7 per cent. The same pattern applies to agricultural and personal services. The order is reversed for the remaining sectors, with productivity increasing relatively more than the relative increase in wages.

In spite of this Table B-5 shows significant increases in productivity coupled with significant increases in wages.

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(21) Uri Bahral, *The Effect of Mass Immigration on Wages in Israel* (Central Press, Jerusalem, 1965), Table C-3 p. 74, & p. 78.

**TABLE B-5**  
**AVERAGE MONTHLY SALARY PER WORKER BY ECONOMIC BRANCH 1961-66**  
*(Israeli Pounds)*

<i>Average Monthly Salary/Worker</i>	<i>Personal Services</i>	<i>Public Services</i>	<i>Transport &amp; Comm.</i>	<i>Commerce &amp; Bank &amp; Ins.</i>	<i>Electricity Water</i>	<i>Construc. &amp; P/Works</i>	<i>Manufac. &amp; Indst.</i>	<i>Agricul- ture</i>	<i>All Econo- Branches</i>
1961	203	298	371	295	486	259	278	143	276
1962	223	356	410	330	487	313	310	164	318
1963	251	386	462	382	513	357	349	189	355
1964	282	423	524	420	566	411	392	220	399
1965	329	497	610	501	635	490	460	283	477
1966	396	600	760	589	737	559	538	334	568
% INC/DEC 1961/66	+ 95.1	+101.3	+104.8	+ 99.7	+ 51.6	+115.8	+ 93.5	+133.6	+105.8
Productivity % INC/DEC 1961/66	+ 71.2	+103.9	+101.3	+133.3	—	—	+ 50.7	+ 87.5	

Source: Statistical Abstract, 1965, p. 355.  
 1967, pp. 299, 161.

### III. ARAB LABOR FORCE

#### A. Demographic Structure

In 1966, the ratio of the labor force to total Arab population was 23.6 per cent among Arabs; for the Jewish population the figure is 40.4 per cent. The main reason for the low ratio among the Arabs is the age structure. Table C-1 shows that the Arab population in Israel is one of the youngest in the world.

**TABLE C-1**

*LABOR FORCE PARTICIPATION OF JEWS AND NON-JEWS  
BY AGE AND SEX : 1961  
(in percentages)*

	<i>Total</i>	<i>JEWS Asian &amp; African Immigrants</i>	<i>ARABS</i>
<b>MEN</b>			
TOTAL	79.0	77.4	79
14-17	38.0	45.0	58
18-34	79.2	84.4	94
35-54	96.6	93.5	90
55-64	86.1	72.3	65
65 +	36.8	23.1	14
<b>WOMEN</b>			
TOTAL	29.4	22.7	11

Source: Yoram Ben-Porath, p. 14.



Table C-1 indicates the following:

First, participation rate of all men is roughly the same;

Second, at age 14-34Z the rate is higher for the Arabs than for Jews, mainly because of the lack of post-primary schools and universities for Arabs, and the lack of military service;

Third, at 35 and over, the rates are higher for the Jews than for the Arabs, the difference increasing with age;

Fourth, the participation of Arab women is lower than that of Jewish women.

In the older age groups the participation rate declines to a low level. Table C-2 shows that the rate for old men is low even when compared with the rates of highly developed countries of the world and much lower than the rate in some of the less developed countries of the region.

**TABLE C-2**

*LABOR FORCE PARTICIPATION OF MEN AGED 65 + IN ISRAEL  
AND OTHER COUNTRIES*

Netherlands	(1960)	19.9	Egypt	(1960)	62.5
U.S.A.	(1960)	30.5	Iraq	(1957)	70.3
Greece	(1961)	43.7	Jordan	(1961)	40.6
Turkey	(1960)	85.6	Israel	(1961)	
			Jews-Total		36.8
			Non-Jews		13.6

Source: U.N. Statistical Yearbook, various issues.

The explanation may lie in a combination of family structure and market conditions. The average Arab family is quite large, and as well as the elderly potential earner there are younger ones who are active members of the labor force. Owing

to the rapid increase in incomes and the lag in the adjustment of consumption levels, the incomes of the young earners are more than enough for the family, and the elders feel free to retire quite early. This tendency is strengthened by the character of demand for hired labor, which comes mostly from the Jewish sector. There, the older Arab's lack of education puts him in a very weak position; hence it may pay the family to send all its potential earners to look for work, and when the young ones earn a high wage the family can enjoy an income higher than its permanent consumption expenditure without sending the old men to work. A factor operating in the opposite direction is that when the chief bread-winner goes to work outside the village the care of the farm becomes the job of other members of the family — the women, the children, and the older men; it may well be that this is not fully expressed in the data.

Part of the low participation rate of Arab women is generally attributed to response error — the failure of women working in the family farm to report as unpaid family workers; nevertheless, part of it can plausibly be attributed to the limited market opportunities open for them.

Two other factors are of particular importance for Arab women:

- a) Low marriage age which explains the decline of participation rates of Arab women at an earlier age;
- b) Large family size, which imposes household tasks on the women that make it more difficult for them to leave home;
- c) Tradition inhibits the participation of married women.

Table C-3 shows the source of rise in the participation rate among the Arabs are the young and the old age groups. The increased participation of the young and old may reflect the improvement of employment opportunities, either directly in the Jewish market or as replacements in the arab sector for the members of the working-age groups who have entered the jewish labor market.

To sum up: among Arabs, the ratio of labor force to population is low for demographic reasons, mainly the young age structure. Among adult men (aged 14+) the high participation

**TABLE C-3**

*LABOR FORCE PARTICIPATION OF ARAB MEN BY AGE*  
*1959 — 63 (in percentages)*

<b>Year</b>	<b>14-17</b>	<b>18-34</b>	<b>35-54</b>	<b>55+</b>
1958	41.5	90.1	88.6	32.4
1959	49.2	92.0	86.8	36.9
1960	49.7	92.9	86.9	39.9
1961	58.4	93.9	90.0	40.3
1962	60.7	94.4	91.4	41.4
1963	60.6	94.8	93.6	45.5

Source: Yoram Ben-Porath, p. 18.

rates in the lower age groups offset the age structure and the low participation of the very old. No such factor operates to reduce the difference in participation between the adult Arab and Jewish women. As to the quality of the labor supply, a great gap in education.

### **B. Occupational Structure**

The salient features emerging from Table C-4 are the following:

First, the percentage of farmers is much higher among the Arabs than among Jews. The percentage of members of the professions, administrative workers, clerks, merchants is higher among Jews than among Arabs.

Second, The percentage of workers in manufacturing, construction and crafts is approximately the same for Arabs and Jews.

Third, there are fewer Jews in technical and professional than in managerial, administrative and clerical occupations; among the Arabs the order is reversed. This difference reflects the fact that relatively few Arabs are employed as civil servants

and that a substantial part of the Arab labor force is employed by firms in which Jews are owners and managers<sup>(22)</sup>.

Fourth, comparison of the sexes shows a much higher percentage of Arab women is engaged in agriculture. Also, a higher percentage of Arab women is employed in the professions; this reflects the large number of women engaged in teaching. It is interesting that Arab women, who are so heavily concentrated at the bottom of the occupational ladder, are at the same time represented more than Arab men at the top of it, in the professional group. This ties in the fact that the gap between Arab men and women is much narrower in the proportion of highly educated persons than at the lower educational levels, reflecting some kind of inequality of distribution of education among Arab women. Among Jews, also, the percentage of professional women is higher than for men; however, the percentage of Jewish women in agriculture is lower than that of men.

Table C-5 shows the industrial distribution of Arab men by age; it is clear that the employment structure of youths differs significantly from that of the other age groups. Mobile youths are concentrated in agriculture, manufacturing and construction, while relatively few are employed in commerce and public services; among the im-mobile, youths are concentrated in agriculture and in construction, the greatest difference is between the 14-17 and the 18-34 age groups, while older people tend to conform to the level of the young. There is a concentration of arab youths in low-income industries and almost certainly in low-wage jobs within industries.

In general, an international comparison of the employment structure of the Israeli Arabs with other Middle Eastern countries depicts one marked difference; the distribution of non-agricultural workers. The proportion of Arabs is higher in manufacturing and in construction and lower in services than in those countries. This difference can be attributed to the relation with the Jewish sector, which supplies the Arab population

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(22) Editor's note: This phenomenon is the result of different behaviour patterns. Whereas the Govt'. is a utility maximizer, private firms are wealth maximizers & consequently they take wages into consideration.

**TABLE C4**  
**EMPLOYED PERSONS BY OCCUPATION 1963**

O C C U P A T I O N	BOTH SEXES		MEN		WOMEN	
	Arabs	Jews	Arabs	Jews	Arabs	Jews
Professional, Scientific & Technical Workers	5.5	12.9	4.8	3.8	16.8	21.6
Administrative, Executive Managerial & Clerical	2.0	16.8	7.1	1.9	2.7	18.3
Traders, Agents, Salesmen	4.7	8.4	6.1	5.0	2.5	9.0
Farmers, Fishermen	38.0	11.8	19.1	34.0	63.7	11.0
Workers in Transportation & Communication	4.3	5.5	4.0	5.0	—	0.8
Construction, Craftsmen	39.3	32.1	42.8	43.8	8.7	14.9
Services, Sport & Recreation	6.2	12.5	16.1	6.3	5.6	24.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: Yoram, Ben-Porath, *The Arab Labor Force in Israel* (The Maurice Falk Institute for Economic Research in Israel, Jerusalem, 1966), p. 22.

with (mainly government) services, while other countries supply these for itself. The share of agriculture in employment of Arabs in Israel is lower than in most Arab countries (Lebanon being an important exception), and this is obviously a result of the employment in the Jewish sector.

The present structure of Arab sector proper is such that it generates only limited demand for educated manpower since the potential source of demand is the Government and the Jewish sector. The Government employs the bulk of Arab educated manpower mainly as teachers. In the Jewish sector, the competitive position of an educated Arab is weak. Even though the Arab wages are low, the Jewish employer would prefer employing his Jewish equivalent since he comes from the same social and cultural heritage, and especially reinforced by Zionist convictions<sup>(23)</sup>.

### C. The Arab Labor Market

In the early period, following the creation of the State, the Arab laborer was in a better employment position than Jewish equivalent, especially the new immigrants. The reason being that, the unorganized Arab job-seeker was prepared to accept wages below the official Histadrut level. He was also prepared to work longer hours and to perform auxiliary services. Moreover, since a small number of immigrants had agricultural occupations abroad, it is very likely that, under conditions of free entry into the Jewish market, Arabs would have found it easier than new immigrants to find jobs. However, the institutional system that existed at the time sought to regulate the entry of the Arabs into the Jewish labor market.

The main motives for such regulation were:

First, protection of the Jewish labor in general, with particular attention to the absorption of immigrants.

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(23) Yoram Ben-Porath, *op. cit.*, p. 35; and Alex Rubner *op. cit.*, p. 40.

**TABLE C-5**

*ARAB EMPLOYED MEN BY INDUSTRY AND AGE : 1961*  
*(in percentages)*

	<i>TOTAL</i>	<i>AGE GROUPS</i>			
		<i>14-17</i>	<i>18-34</i>	<i>35-44</i>	<i>45+</i>
<b>MOBILE</b>					
Agriculture	33.8	45.2	31.3	33.7	38.7
Manufacturing	22.0	21.3	23.0	20.7	17.5
Construction	25.1	13.4	26.8	27.1	23.7
Commerce	4.7	9.1	4.2	3.6	4.8
Public services	7.0	0.4	7.6	8.0	8.9
Other industries	7.4	10.6	7.1	6.9	6.4
<b>IMMOBILE</b>					
Agriculture	48.9	68.4	42.4	49.8	53.7
Manufacturing	14.0	17.6	16.4	11.4	9.6
Construction	7.4	3.7	8.3	7.8	6.9
Commerce	9.7	5.9	9.8	8.8	11.5
Public services	10.1	2.0	10.3	11.8	11.7
Other industries	9.9	2.4	12.8	10.4	6.6

Source: Yoram Ben-Porath, p. 28.

Second, protection of Jewish labor in agriculture specifically, in the interests both of ensuring the possession of land and creating a strong Jewish agricultural sector.

Third, for a long time, the military rule dominated the Arab sector. Inevitably, its policy, allegedly guided by secu-

rity considerations, exerted an influence in the economic realm. In the present context, the most important aspect of military government was its power to restrict movement. The areas open to entry were circumscribed, and contact with the Jewish population was reduced. The entire Arab population was affected, more particularly so people living in border areas.

The regulation was more forcibly affected by the Labor Exchanges and the Histadrut. The Labor Exchanges were originally designed to serve the local Jewish labor market. When an Arab worker found work on his own, he had to apply to the local Labor Exchange to obtain its consent to the issue of a travel permit. The decision of the Exchange depended on the employment situation in the intended place of work and on the applicant's right of employment. Owners of land or persons who had obtained land on lease were disqualified from being employed in the Jewish sector.

In the mixed towns, the Histadrut as well as the other Jewish Exchanges were guided by the principle of «Hebrew Labor», and as such refused to deal with Arab manpower. They tried to prevent the penetration of Arab labor from the outside by exerting pressure on the military government and on the Ministry of Labor, and by demonstrations, road-blocks and the like<sup>(24)</sup>.

With the passage of time, the pressure of Jewish supply on manual jobs subsided, so that there was less interference with intersectoral mobility, parallel with the increased demand for Arab labor. Moreover, the attitude of the Histadrut, under the pressure of public opinion, changed. In 1959 the Histadrut adopted a resolution admitting Arab workers as members with equal rights. By the middle of 1962, about 16000 dues-paying Arabs had joined the Histadrut<sup>(25)</sup>, and by 1966, Arab membership in the Histadrut reached 40800 workers<sup>(26)</sup>.

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(24) Layla Kadl, *op. cit.*, pp. 67-68.

(25) Yoram Ben-Porath, *op. cit.*, p. 56.

(26) Layla Kadl, *op. cit.*, p. 68.



### D. Wage Differentials

In spite of the above, the wages of the arabs remained half of that of the Jews in 1966<sup>(27)</sup>. I have not been able to find reliable figures showing wage differentials; but insofar as wages also include fringe benefits, the gap between the Arab and Jewish wages is high.

The wages paid to the Jewish labor include dues to workers associations, army reserve duty equalization funds, provident funds, social security, vacation pay and the like, which are not paid to the worker directly. While some of these payments are the same in all industries, most of them are fixed by agreement between workers and employers in each industry separately. In 1961, fringe benefits were estimated at 9.9 per cent of nominal wages in agriculture, 13.5 per cent in construction, and about 18 per cent in industry. The Arab employment structure is heavily weighed by industries in which fringe benefits are small either because they are fixed at a low rate by the labor agreement or because enforcement is deficient. At the same time it is obvious that if the Arab worker is not organized, does not enjoy the services of a Labor Exchange and is not a member of a workers insurance fund, it is easier for the employer to avoid paying fringe benefits, which makes the Arab worker cheaper to employ.

Another element in wage differentials is the hours of work and types of auxiliary tasks for Arab workers as compared with Jewish workers.

To sum up: the Arab laborer in Israel is at a disadvantage when compared to his Jewish equivalent. He suffers not only from restrictions on mobility and low wages, but more significantly from his vulnerability in being the first to loose a job whenever economic growth of Israel slackens.

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(27) Layla Kadi, *Ibid.*, p. 68.

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## **POLICY & PLANNING**



# TRENDS & PRINCIPLES IN ECONOMIC PROGRAMMING & POLICY IN ISRAEL

By SAHAB SHAIR

## I. Introduction: The Economy

Israel's burdens are of both organisational and non-organisational origin. The sources of the latter are various. The birth of Israel was mid-wived between two world wars and the State lived, ever-since its existence, under a garrison-state atmosphere. The concern over her status has made necessary considerable defence-oriented outlay, thereby swelling the nation's burdens and affecting its resource-use patterns.

In the past, the major source of Israel's gross economic burden has been her immigration policy which entailed the welcoming of Jewish immigrants on a large scale. Because of this policy, immigration has played a major role in Israel's population growth and introduced into Israel's population the cultural and physical heterogeneity characteristic of the Jewish population.

This heavy influx of immigrants accentuated both investment problems and employment problems<sup>(1)</sup>:

(a) Most of those who came were penniless and had to be incorporated into the labor force or settled in agriculture. Assimilation of the immigrants into Israel has been complicated also by the diversity and often traditional character of their cultural backgrounds.

(b) The income-producing capacity of investment in

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(1) Joseph J. Spengler, «Economy and Polity in Israel» *Southern Economic Journal*, Vol. 28, July 1961 — April 1962, pp. 71-72.

Israel was held down since relatively large amounts of investment undertaken on behalf of the immigrants were characterized by relatively high capital-output ratios, such as dwellings.

(c) While Israel was able to absorb most of the immigrants into her labor force, she has not yet been able to absorb all. Unemployment resulted, serious in its extent, in its depth, and in its structural nature. It has been concentrated among the immigrants from Asia and Africa, that is, among the less skilled<sup>(2)</sup>.

Whatever expenditures the requirements of defense and settlement impose on the Israeli economy, their burden is accentuated by severe constraints under which the economy operates. Israel is small in size, suboptimal in her spatial configuration, poor in resources and top quality land, and boycotted by her Arab neighbours. Add to this the feeling of general insecurity since Israel is a transplanted state and not a natural one.

Israel's trade with her neighbours is not existing because of boycott; even so it would be small, some economists contend, if there was not boycott, since her neighbours' economies are not every complementary to hers. Her exports are too low to give rise to many economies of scale, nor is Israel's internal market large enough to do so. Diseconomies consequent upon this and the smallness of her average manufacturing establishments make it difficult to augment productivity per worker as rapidly as expectations, wage demands, and money wages rise in Israel, with the result that money costs and prices tend to be high<sup>(3)</sup>.

Besides these difficulties that inhibit the advancement of the Israeli economy, there is the largest drawback of that economy. This is the heavy dependence upon the import surplus to finance development, defense, and settlement. This import surplus has been covered by grants, aid, and loans from outside, besides the reparations payments from West Germany. Such

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(2) S. Riemer, «Israel: Ten Years of Economic Dependence», *Oxford Economic Papers*, Vol. 12, 1960, pp. 156-162.

(3) J. J. Spengler, *op. cit.*, p. 74.

an inflow of resources is foreseen to dwindle in the future, which case would impose tremendous problems on the Israeli economy<sup>(4)</sup>.

Israel's main task consists in making the state economically viable. Accomplishment of this purpose entails bringing payments into balance, by developing Israel's internal productive powers and such potential comparative advantages as she may enjoy in the international field. Developing Israel's productive powers and potential advantages entails stepping up the rate of domestic capital formation, increasing the relative number of entrepreneurs, engineers and persons with managerial skills, shunting them along with capital into the comparatively more expansible sectors of the economy.

These are the main problems and principles that have guided and still guide the developmental efforts of Israel. In the subsequent pages I shall try to describe these efforts, although this description will be partial due to the lack of enough available information.

## II. Economic Programming

In order to make a comprehensive study of all developmental programmes and efforts during the twenty years of the existence of the State of Israel, the material is divided into three parts. The first part discusses the national economic programming or the comprehensive and complete programming for economic development. The second part discusses the various sectoral programmes which have assumed the major role in planning in Israel, while the last part discusses the economic policies of Israel, namely, the two New Economic Policies of 1952 and 1962.

However, before doing that, mention should be made of the Economic Planning Authority<sup>(5)</sup> which the Israel Cabinet

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(4) Y. Sayegh, *The Economy of Israel*, Palestinian Liberation organization, research centre, (second edition, in Arabic), Beirut, 1966, pp. 253-273.

(5) B. Akzin, & Y. Dror, *Israel: High-Pressure Planning*, National Planning Series, Syracuse University Press, New York, 1966, pp. 71-72.

established in February 1962 with certain objectives in mind. Among these objectives are the following:

(a) The preparation of a proposal for a comprehensive development programme for a period of four to five years as well as yearly plans within the multi-year plan;

(b) The coordination of specific development programmes submitted by the various ministries and the proposal of an order of priority for them;

(c) The examination of the compatibility between the current economic policy and the objectives set down in the annual and multi-year programmes; and

(d) The provision of advice in matters relating to the Common Market and other external economic affairs, in coordination with the Ministry for External Affairs and the economic ministries.

The Economic Planning Authority was set up in subordination to the Minister of Finance, who serves as chairman of the Ministerial Committee for Economic Affairs. Its provisional establishment included seventeen positions, including thirteen economists in three departments: macro-economic planning, sectoral economic planning, and economic policy-which are the three sections of the present paper.

### **A. Comprehensive Economic Programming**

Although piecemeal or sectoral programming has been given the overwhelming role in the country's economic development, yet there have been two efforts at national and comprehensive programming. In 1949, a local Israeli economist, Ludwig Gaaton, prepared the first «Four-Year Development Programme» for the years 1950 - 1953<sup>(6)</sup>. Although this proposal had no direct effect in action, yet it had some influence in increasing the awareness of the need to plan. The second «Four-Year Development Plan» was for the years 1963 - 1967. Before going

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(6) B. Akzin, & Y. Dror, *op. cit.*, p. 67.



into the description of the objectives, assumptions, and policy principles of this plan, reference is made to the anti-comprehensive programming factors which were strong in the beginning but weakened later on, and which have acted as barriers to national economic planning.

### **B. Anti-Comprehensive Programming Factors**

Although the small size of the country and its population make over-all national economic planning feasible, yet there is no perceptible progress in that direction, and this is for various reasons.

The early history of Israel was characterized by its dynamism. Problems of security had to be coped with. This, together with the high rate of immigration despite the country's paucity in resources, required the full attention of the leaders. Thus, efforts were concentrated on these emergencies rather than on long-range planning.

Political factors are crucial for the evolution of national programming in Israel. National planning is always a highly political activity but it is more so in Israel. The reasons are many. To begin with, the Israeli economy is to a large extent directly and indirectly government controlled. Moreover, politicians play a large role in public policy-making in Israel than in any other modern state, and therefore, the influence of professional staff is limited. Finally, the power distribution in Israel between different groups and sub-groups is very dynamic, and therefore, political power and interest weigh heavily in much public and economic policy-making<sup>(7)</sup>.

Israel parties represent different ideologies, ranging from extreme Jewish religious orthodoxy to communism. This does not affect much the treatment of acute problems which are largely determined by pragmatic considerations. But multi-year comprehensive programming involves more alternatives and objectives of larger ideological significance. This, coupled with

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(7) B. Akzin, & Y. Dror, *op. cit.*, pp. 7-8.

the strong vested interests, tends to go against long ranged national planning<sup>(8)</sup>.

In Israeli circumstances, pragmatism is frequently the optimal master-strategy. This is strengthened by, and in turn strengthens, the dynamism of the Israeli situation which requires a fast tempo of action.

Other factors besides the political and situational, are the administrative factors. Insufficient coordination here has seriously weakened the administrative system and still poses additional difficulties in the way of national comprehensive programming.

As for the social environment in Israel, there are a number of critical factors which constitute strong barriers in the face of national programming. The main challenge is due to the heterogeneity of the society's character which results from the multi-cultural origin of its inhabitants. There are contradictions between the needs of economic development and the needs of social integration. The best example to provide here is the wage policy required by each of these two goals. Economic development requires lower wages so as to absorb more people into the labor force and to bring down the import surplus. Social integration, on the other hand, requires wages to remain high so as to increase the standard of living of large groups of the population. However, one modification of this is that national programming entails the choice of priorities between objectives, and if social integration and economic development are both put as objectives, then some golden mean can be found to satisfy both objectives according to their relative importance.

Another social challenge is the unequal distribution of the population in the country<sup>(9)</sup>. About 70 per cent are in the coastal districts, while the larger areas of the north and the south are almost unpopulated. Add to this the fact that many of the small villages in the less populated areas are occupied mostly by new immigrants, which poses serious problems of acculturation.

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(8) There is the opinion that the fear of abusing the U.S. is a factor inhibiting over-all programming.

(9) B. Akzin, & Y. Dror, *op. cit.*, p. 21.

To conclude, the main factors inhibiting formal, long-range, multi-year, comprehensive planning are: the early patterns of improvisation which are still influential; the pressures of acute problems; internal political conditions and interest groups; and, optimistic attitudes which regard planning as unnecessary.

### C. The Four-Year Development Programme, 1963-1967<sup>(10)</sup>

The draft of this plan was set down by the Economic Planning Authority, mentioned above, in July 1962, and was based mainly on earlier preparations. This plan envisaged three main objectives:

(a) The continued and rapid growth of the economy and the large scale absorption of immigrants. This rapid growth was to be expressed by an average yearly increase of 10 per cent in real national product, and was to enable 70,000 immigrants to be absorbed each year.

(b) The gradual reduction of the gap in the balance of goods and services. They had to aim at a reduction in the import surplus from about \$400 million in 1961 to \$250 million in 1966, with the intention of reducing the gap still further in the subsequent years.

(c) The development of the Negev and of Central Galilee.

As in all development plans, this one is based on certain assumptions and on the above objectives. There were ten policy variables dealing with human resources, investment, efficiency, national product, rate of savings, private consumption, public consumption, exports, imports, and price policy.

As for the assumptions basic for the plan, they fall into three main points:

(a) That population was to increase each year by about 110,000 persons, representing immigration (net of emigration)

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(10) Due to the lack of available information, this section is based on Akzin's and Dror's book, *op. cit.*, pp. 72-73.

and natural increase; in all, total population was to increase to about 2,800,000 by the end of 1966;

(b) That total capital inflow in Israel was foreseen to decline gradually; and

(c) That a trade agreement was assumed to be reached with the European Economic Community, under which Israel would have been able to export its products to the Common Market without quota or tariff restrictions.

The last two assumptions proved wrong by the end of 1965, and thus, those attempts at national comprehensive programming did not bring forth any results.

## **D. Sectoral Programming**

### **1. Agricultural and Water Resources Programming**

It is in the change of concept regarding the value of agriculture that programming on economic basis started in that sector. At the start, agriculture had an ideological and political value. «During the pre-State period agricultural work — especially within the collective and cooperative settlements — was regarded as the main means of fulfilling the Zionist and pioneering ideal of redeeming the ancestral country»<sup>(11)</sup>.

In the beginning, programming was rarely done on economic basis. It was mostly technical in nature or directed at political and security objectives. To illustrate, it is only sufficient to mention that the Jewish Agency prepared economic plans only to prove that the «economic absorptive capacity» of the country was much greater than the British Mandatory power claimed, so as to be able to admit more immigrants. Therefore, economic agricultural programmes were prepared primarily as means of political action and were never executed.

After the establishment of the State, it was only natural

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(11) B. Akzin, & Y. Dror, *op. cit.*, p. 50.

that the main and urgent problems were settling the immigrants and increasing all agricultural production so as to provide food for local consumption. The impetus, therefore, for real economic agricultural programming was the problem of surplus, especially in milk, eggs, vegetables and fruit, to provide income for the farming population and a steady supply of products to the market. Another stimulus came from the export possibilities and so production came to be planned either for immediate export or for export after processing.

The traditional form of agriculture in Israel is Mediterranean-style farming, typified by a large variety of crops, based on three main branches: field crops (mainly wheat); fruit (mainly grapes and olives); and livestock (mainly sheep and goats). Another important, relatively new branch, is vegetable gardening under irrigation<sup>(12)</sup>.

«Most of the agricultural planning is directed at changing the basic patterns of agriculture, moving from mixed farming to specialization, trying to make the optimum use of resources»<sup>(13)</sup>. However, this tendency has faced a lot of opposition, both from ideological groups that reject the «economic view» of agricultural activity and from vested interests that oppose any effort to dislodge them from their established patterns of activity. In order to overcome this resistance, some regulatory and fiscal means are used, such as the establishment of marketing boards with authority over all marketing of certain products, and the use of government subsidies as incentives.

The two basic needs of agriculture in Israel are soil and water. Agriculture cannot be maintained at a high level without irrigation because the rainy season is short and a large part of the land is in the Negev where rainfall is scarce or non-existent. Moreover, some of the vital crops of the Israeli food-basket can only be grown under irrigation, such as, citrus fruit, vegetables and fruit trees<sup>(14)</sup>.

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(12) J. Dash, & E. Efrat, *The Israel Physical Master Plan*, Ministry of the Interior, Planning Department, Jerusalem, 1964, p. 19.

(13) B. Akzin, & Y. Dror, *op. cit.*, p. 52.

(14) J. Dash, & E. Efrat, *op. cit.*, p. 17.

Increasing difficulties in getting enough water at reasonable costs provided an early impetus for water-resources programming which has reached a high level of development. This water policy has gone through three phases. At first, there was only local activity, then regional plans were developed, and in the third phase an elaborate master water plan was prepared, recommending heavy investments by the Government in large engineering works<sup>(15)</sup>.

As a result of careful programming in agriculture and water resources, fruitful results substantiated. Highly intensive cultivation, which is essential since most of Israel's agriculture is concentrated in a narrow area, has been achieved by experimentation and research, careful seed selection, use of fertilizers, and spraying. Mechanization has taken the place of manual labor and, by the organization of settlements on a cooperative or regional bases, both land and equipment are rationally and efficiently used<sup>(16)</sup>. As a result, both production and exports of agricultural products have increased substantially.

Mention should be made here of the vast financial assistance offered for agricultural development. Since agriculture is the activity favored by Zionism for religious reasons, it has received grants in various forms, both directly and indirectly<sup>(17)</sup>.

## 2. Industrial Programming

In contrast to agricultural programming, industrial programming has been somewhat slow. It is true that since the establishment of the State, Israel's industry has undergone many changes. While in the thirties, it was based mainly on semi-finished products and consisted of small workshops set up by immigrants and artisans from various countries, Israel now has both light and heavy industry, engaged in all stages of production and providing a source of livelihood for about one third of her inhabitants<sup>(18)</sup>.

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(15) B. Akzin, & Y. Dror, *op. cit.*, pp. 52-53.

(16) J. Dash, & E. Efrat, *op. cit.*, p. 19.

(17) Y. Sayegh, *op. cit.*, pp. 238-240.

(18) J. Dash, & E. Efrat, *op. cit.*, p. 21.

But the fact remains that programming for industry has been slow. For a long time, the main objective of economic policy in Israel has been the attraction of a maximum net inflow of capital from abroad, and the achievement of maximum capital investment in remunerative enterprises. However, with time, increasing attention has been paid to «screening projected investments»<sup>(19)</sup> with the purpose of their contribution to Israel's economic and social goals.

After the Reparation Agreement with West Germany was concluded in 1952, there had to be a sort of programming for the use of these funds. At first, there was the tendency to try every possible investment opportunity and only with time did some criteria develop for approving investments. The function of the Planning Division in the Department of Industry included general industrial programming, industrial sector programming, and project programming. But its main work until 1962 consisted in preparing specific industrial projects to be suggested to private investors abroad. About thirty industrial projects were prepared annually and used as means for recruiting private investments and directing them towards desirable enterprises, especially in the field of exports<sup>(20)</sup>.

Although there was no serious industrial programming in the real sense of the word, yet there was much stress on industrialization and that for several reasons<sup>(21)</sup>: First, is the rise in the productivity in the agricultural sector which made Israel able to provide most of what it needs in agricultural produce for consumption and industry, even though this requires high costs; Second, is the drive towards economic independence or the reduction in the reliance on capital imports to finance development — this drive is more successfully accomplished through industrial exports than through agricultural exports; and last, is the less enthusiasm of immigrants to settle in the countryside which entails the sacrifice required by the philosophy of the settlements, communes as well as cooperatives. This last is

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(19) B. Akzin, & Y. Dror, *op. cit.*, p. 54.

(20) B. Akzin, & Y. Dror, *op. cit.*, p. 54.

(21) Y. Sayegh, *op. cit.*, p. 242.

enhanced by the desire of the people to live and work in the towns — in the industrial and trade sections.

As agriculture, industry has been subsidised by the Government, especially the export sector. This is because of the inability of industry to face external competition due to its high costs of production relative to other industrial countries<sup>(22)</sup>.

### 3. Capital Import Programming

Capital import into Israel can be given, without hesitation, a major role in the contribution to the economic development of the country and in financing the import surplus. Programming in this area constitutes an important part in the whole picture of the sectoral planning and programming in the country and tremendous efforts are devoted to the mobilization of capital import. Akzin and Dror point out that «while no quantitative data are available, it is nevertheless clear that a considerable part of the time and energy of the Minister of Finance, the Minister of Trade and Industry, the senior officials of the economic ministers and the senior staff of politicians is devoted to the mobilization of resources from abroad»<sup>(23)</sup>.

Various forms of mobilization of capital imports are programmed as independent projects. Of considerable importance are the efforts planned to draw private investors to Israel. A special Investment Centre has been established to implement the Law for the Encouragement of Capital Investment (1950)<sup>(24)</sup>. The law offers considerable tax and rate-of-exchange concessions to foreign investors in approved enterprises. Moreover, significant planning takes place in the various money-recruiting campaigns, such as the bond drive and the United Jewish Appeal. However, there is no organisational unit responsible for overall capital import programming and there is no formal coordinating unit to mastermind capital recruitment activities.

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(22) Y. Sayegh, *op. cit.*, p. 244.

(23) B. Akzin, & Y. Dror, *op. cit.*, p. 56.

(24) *Ibid.*



These are three of many areas of facet programming. There are many other areas of government activities with varying degrees of planning. However, the main factors influencing such programming include, among others: the assumed level of needs, external and internal pressures, propensity to change, availability of data, qualified manpower, and political expediency.

There is a tendency towards more and better facet programming, as a result of slow but continued changes in the above factors. However, the degree of progress is not the same in all the sectors. Some are approaching the period of high-quality facet programming while others are still at the stage of nearly pure improvisation combined with spontaneous or rather accidental change<sup>(25)</sup>.

One important drawback in all the sectoral programming in Israel is the lack of enough integration among the various areas. Although sectoral programming has played a significant role in the economic and physical development of the country, yet the imbalance or lack of integration amongst these plans has not been without undesirable effects. In fact, an expert advising Israel noted the fact that programming has been done on a sector basis, and that no need has been felt for an organized and integrated plan. The effect of that piece-meal approach, the expert noted, was that the price structure has become distorted on account of numerous taxes and subsidies which, however, did not achieve the desired reduction in the country's balance of payments deficit<sup>(26)</sup>.

### III. Economic Policy

It is important to discuss the economic policy in Israel because although it is not planning in the real sense of the word, yet it is related to it. Both attempt to solve the same problem,

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(25) B. Akzin, Y. Dror, *op. cit.*, p. 59.

(26) G. M. Meier, *Leading Issues in Development Economics*, New York, Oxford University Press, 1964, p. 472.

that of economic dependence, or the heavy reliance on capital imports. For a complete round-up picture, the discussion is divided into two parts — the first relating to the first decade of the existence of the State, and the second part relating to the second decade.

#### A. The First Decade — The New Economic Policy of 1952

A study of the Israeli economy during the first decade will lead to the conclusion that the changes which occurred in the labor market since 1948 have resulted in the crystallization of an excessive wage level which in turn has given rise to two basic disequilibria in the economy<sup>(27)</sup>:

(a) An internal disequilibrium between the demand for and the supply of economic job opportunities, or the inability to maintain full economic employment;

(b) An external disequilibrium between the demand for and the supply of foreign currency, or the inability to balance the country's international transactions out of its own resources.

The three aspects of the situation, i.e., wages, employment, and capital import, are intimately and organically related to one another. The import of capital makes it plausible to maintain excessive wages, principally by providing the means of living for the unemployed.

The lack of sufficient job opportunities in turn is the principal cause why the country's trade deficit cannot be reduced or bridged: on the one hand because domestic production cannot be expanded sufficiently to increase exports and to replace imports, and in the second place, because capital imports themselves cannot be fully utilized for productive investments.

The extent and intensity of the economy's two basic disequilibria could be varied inversely. The internal employment

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(27) S. Rieemer, *op. cit.*, pp. 161-162.

disequilibrium can be improved at the expense of a worsening in the external payments disequilibrium, and vice-versa. The main instrument for switching the economy relatively from one disequilibrium to the other is monetary policy. By expanding the money supply in real terms the internal disequilibrium is alleviated and the external one is worsened. The opposite is also true.

Until 1952 monetary forces were not allowed to function freely in the economy. The money supply was rapidly expanded by the government deficit finance at the same time that the official price level was pushed down (during part of the period) by administrative decrees. In the end, violent inner contradictions, derived principally from the inability to syphon off excessive purchasing power from the market, forced the Government to terminate this unhappy experiment in suppressed inflation.

With the introduction of the New Economic Policy in early 1952, and the gradual return of the economy to the discipline of the price mechanism, monetary policy came into its own as the gear box for switching the economy between internal and external disequilibrium.

The New Economic Policy of 1952 involved primarily the devaluation of the Israeli currency. According to David Horowitz<sup>(28)</sup>, «the monetary reform carried into effect that year prevented a grave economic crisis and served as a point of departure for a period of great momentum in reconstruction and development during the following decade». The resources made available as a result of the reform were effectively utilized; production increased, the balance of trade improved, and the rising wave of inflation was contained. The rise in prices was slowed up and a fair degree of stability and economic progress was attained. The population doubled and the Gross National Product in real terms nearly trebled.

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(28) David Horowitz, «The New Economic Policy in Israel, *Middle Eastern Affairs* New, York, Vol. XIV, No. 6, June-July 1963, p. 162.

## B. The Second Decade — The New Economic Policy of 1962

The decade after 1951 experienced accelerated and feverish development, all of which impaired the stability of the economy. Gross National product increased in physical volume by 140 per cent, and the supply of money (annual average) increased by 360 per cent. Prices increased by 164 per cent. Thus the rapid development, with the concomitant rise in consumption necessitated another readjustment in 1962<sup>(29)</sup>.

Thus, in 1962, because of a deterioration in the balance of trad and some weakening of internal stability, the Government was confronted with an urgent need for a new departure in economic policy. To this was added the need for integration in the world economy, particularly after the emergence and consolidation of the Common Market. Thus, in a speech by the Finance Minister of the time, Levi Eshkol, he says<sup>(30)</sup>: «The consolidation of the Common Market is particularly significant for Israel, because we need the markets of Western Europe for almost all of our agricultural exports and most of our industrial exports».

Therefore, conditions were to be created not only to strengthen the competitive capacity of Israeli exports in foreign markets, but also to ensure that Israeli goods will be able to stand their ground in the local market and face the competition from imported goods, without the protective walls of high defensive tariffs and other import restrictions.

Because of these challenges and the prospective reduction in capital imports, there was felt a need for a monetary reform envisaged in the light of the country's long-range problems. This New Economic Policy had two objectives<sup>(31)</sup>:

(a) The elimination of distortions in prices, production and investment, and the achievement of a more realistic basis

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(29) David Horowitz, *op. cit.*, p. 164.

(30) Levi Eshkol, «Israel's New Economic Policy», *Middle Eastern Affairs*, New York, Vol. XIII, No. 3. March 1962, p. 86.

(31) David Horowitz, *op. cit.*, pp. 163-164.

for further economic development through adjustment in world prices: and

(b) The improvement in the balance of trade.

But these two objectives were governed by the supreme objective of reaching economic independence, or in other words, the reduction in the import surplus.

Thus, it was a stabilization plan and can be divided into three parts<sup>(32)</sup>:

(i) The devaluation of the currency to a uniform rate of IL 3 per U.S. dollar<sup>(33)</sup>. This rate was supposed to serve the above two objectives — it was a golden mean between ensuring that no inflation occurred as a result of large-scale conversion of foreign currency, and mending the balance of trade;

(ii) A development policy to expand production and to serve the reduction in the trade balance deficit; and

(iii) Stabilization of the economy and prevention of inflation. To secure this, there were many measures to be taken of which are the following:

(a) The Government had to take measures to ensure stability of prices. Abundant supply of both local and imported products had to be ensured, and when necessary, subsidies were to be provided to prevent an increase in the prices of essential goods;

(b) The Government had to take measures to prevent the making of «unjustified» profits and excessive expenditures which lead to an increase in prices. Fiscal policies were to be taken in case they were needed;

(c) The Government, with the cooperation of the Histadrut, intended to take appropriate measures to ensure the implementation of the principle that any rise in the wages should

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(32) Levi Eshkol, *op. cit.*, pp. 86-89.

(33) In 1948 the rate of exchange was 4 U.S. dollars per 1 I.L. Moreover, before the implementation of the 1962 economic policy, there were several rates of exchange and not a single one.

not exceed the rate of increase of the workers' contribution to the increase in the net national output. Accordingly, a suitable part of the additional output was to be devoted to lowering the prices of Israeli goods in foreign markets and only part was to be directed to increasing incomes;

(d) Bank credit to the public was to be extended at a rate not exceeding the rate of increase of real output; and

(e) Efforts to increase savings had to be intensified. This was to curb consumption so as to reduce inflation and to modify the effect of the first measure which, otherwise, would work towards increasing the trade deficit.

The same results that followed after the first New Economic Policy of 1952 followed after the second<sup>(34)</sup>. The first success was the removal of distortions in the price pattern and the abolishment of the complicated programs of surcharges, premiums and subsidies. Economic growth grew at an average rate of 10 per cent in constant prices. The volume of investment expanded in 1962 and 1963 by 25 per cent in comparison with 9 per cent in the preceeding year. The number of gainfully employed rose by 5.5 per cent, mainly in the building trades and industry. Unemployment was reduced in 1964 by 15.7 per cent, after a decline of 12.4 per cent in 1963. As for the trade balance, there was a certain improvement after a few months of the inauguration of the New Policy, but this improvement was of brief duration. The new rate of exchange attracted more capital in 1962 and 1963 with the result that this expansion of liquidity had unfavorable consequences for the balance of trade, which led to a deterioration in 1964 and a rise of \$124 in the excess of imports over exports. Moreover, the policy did not succeed well enough to restrain the rise in individual incomes. Nominal wages rose in 1964 by 12 per cent and real wages by 7 per cent. This counteracted the policy of restraint, i.e., a surplus budget and credit restriction.

These lopsided results of the reform can be attributed to

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(34) David, Horowitz, *The Economics of Israel*, Pergamon Press, London, 1967, p. 174-178.

the inherent contradictions of the New Economic Policy of 1962<sup>(35)</sup>. On the one hand, it aimed at increasing the foreign currency reserves to meet the exigencies of the economy should the unilateral transfers of capital dwindle into insignificance. On the other hand, it sought to neutralize the effects of the conversion of foreign currency resulting from the increase in reserves. But, according to the opinion of Horowitz, this built-in contradiction was not due to any fault in planning or its application, but was due to the conditions under which the policy was to be implemented. The solution of the problem lies in two directions: First, the stoppage of short-term or high-interest loans from abroad; and second, the adoption of measures which compensate in other areas for monetary expansion. These measures lie in the realm of monetary policy, and fiscal policy, such as restriction of credit and a budget surplus.

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(35) David Horowitz, «The New Economic Policy in Israel», *op. cit.*, pp. 167-168.

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